The new figures on income, by states

(Page 54)

INDEX · 175 · 150 · 125 · 100 · 75 · 50 · 25 · 0

BUSINESS WEEK

A McGRAW-HILL PUBLICATION FIFTY CENTS MAY 30, 1959

Pepsi-Cola's new boss, H. L. Barnet: Can he keep the sparkle in a lively company? (Marketing)

Photo courtesy Globe Rubber Products Corporation, Philadelphia, Pa.

Fashion floor that's built for kicks

Spiked heels may be stylish on the foot, but they're "murder" on floors. Car floors, particularly, take a beating – not only from the pointed fashions of modern footwear, but from the constant pounding of foot-loose youngsters.

To take it, car floor covers or mats must be tough. And to sell, they must have color. One of the leading manufacturers in this field has found that PLIOFLEX, synthetic rubber by Goodyear, has the lasting qualities they require. It has also enabled them to make a more sales-appealing product at a substantial saving.

Want proof? Just look at the clean, crisp color of the floor mat above. Consider, too, the assured processability of PLIOFLEX *plus* its high uniformity and exceptional resistance to aging.

It all adds up to economical production of a sales-appealing product. To add appeal to *your* product without adding to your costs, check the advantages of PLIOFLEX. For full information–plus latest *Tech Book Bulletins* on PLIOFLEX and a full range of synthetic rubbers and rubber chemicals–write Goodyear, Chemical Division, Dept. E-9415, Akron 16, Ohio.

GOODYEAR

CHEMICAL DIVISION

Plioflex–T. M. The Goodyear Tire & Rubber Company, Akron, Ohio

in BUSINESS this WEEK May 30, 1959

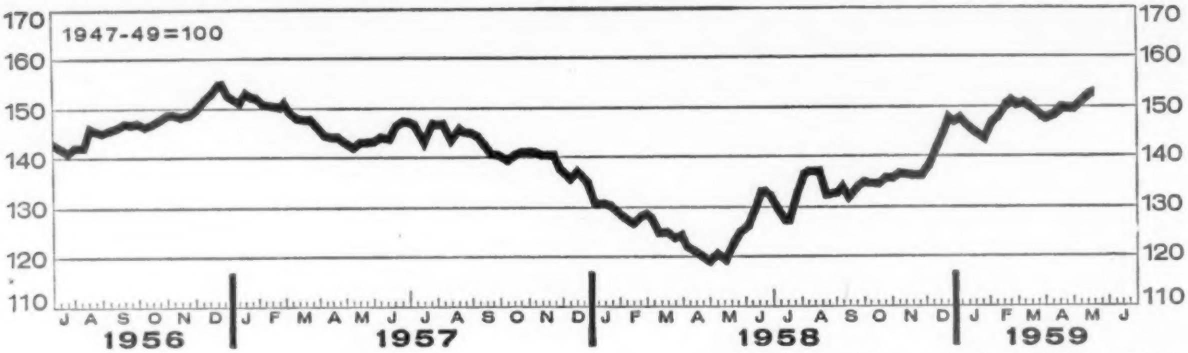
GENERAL BUSINESS

THE DEPARTMENTS

BUSINESS WEEK is published weekly by McGraw-Hill Publishing Co., Inc., 330 W. 42nd St., N. Y. 36, N. Y. Second Class Postage Paid at N. Y. 1, N. Y., and at Albany, N. Y. Subscriptions $6 a year in U. S. A.

NUMBER 1552

FIGURES of the WEEK



	1953-55 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
BUSINESS WEEK INDEX (chart)	**133.3**	**125.2**	**149.8**	**†153.1**	***153.7**
PRODUCTION					
Steel ingot (thous. of tons)	2,032	1,567	2,627	†2,644	**2,671**
Automobiles and trucks	132,806	112,101	171,280	†172,659	**168,673**
Engineering const. awards (Eng. News-Rec. 4-wk. daily av. in thous.)	$52,412	$76,169	$65,265	$70,752	**$81,948**
Electric power (millions of kilowatt-hours)	10,819	11,316	12,538	12,684	**12,931**
Crude oil and condensate (daily av., thous. of bbls.)	6,536	6,256	7,132	7,178	**7,216**
Bituminous coal (daily av., thous. of tons)	1,455	1,212	1,337	†1,392	**1,364**
Paperboard (tons)	247,488	259,071	304,464	322,778	**317,985**
TRADE					
Carloadings: mfrs., miscellaneous and l.c.l. (daily av., thous. of cars)	70	57	65	66	**66**
Carloadings: all others (daily av., thous. of cars)	47	37	41	47	**50**
Department store sales index (1947-49 = 100, not seasonally adjusted)	121	126	132	158	**137**
Business failures (Dun & Bradstreet, number)	198	337	300	311	**259**
PRICES					
Spot commodities, daily index (Moody's, Dec. 31, 1931 = 100)	412.8	403.3	390.7	386.6	**387.4**
Industrial raw materials, daily index (BLS, 1947-49 = 100)	89.2	81.3	91.6	91.5	**92.0**
Foodstuffs, daily index (BLS, 1947-49 = 100)	90.5	92.9	81.9	82.9	**82.7**
Print cloth (spot and nearby, yd.)	19.8¢	17.3¢	18.7¢	19.0¢	**19.1¢**
Finished steel, index (BLS, 1947-49 = 100)	143.9	181.6	186.7	186.7	**186.7**
Scrap steel composite (Iron Age, ton)	$36.10	$34.00	$33.83	$34.17	**$35.83**
Copper (electrolytic, delivered price, E & MJ, lb.)	32.394¢	24.670¢	31.630¢	31.560¢	**31.555¢**
Wheat (No. 2, hard and dark hard winter, Kansas City, bu.)	$2.34	$2.34	$2.06	$2.04	**$2.06**
Cotton, daily price (middling, 1 in., 14 designated markets, lb.)	33.77¢	34.76¢	34.61¢	34.63¢	**34.63¢**
Wool tops (Boston, lb.)	$1.96	#	$1.82	$1.78	**$1.77**
FINANCE					
500 stocks composite, price index (S&P's, 1941-43 = 10)	31.64	43.83	57.86	58.22	**58.19**
Medium grade corporate bond yield (Baa issues, Moody's)	3.59%	4.61%	4.90%	4.96%	**5.00%**
Prime commercial paper, 4 to 6 months, N. Y. City (prevailing rate)	2-2⅛%	1⅝%	3½%	3½%	**3⅝%**
BANKING (Millions of Dollars)					
Demand deposits adjusted, reporting member banks	57,848	54,671	57,858	56,184	**56,222**
Total loans and investments, reporting member banks	84,642	91,803	94,917	95,384	**94,856**
Commercial and agricultural loans, reporting member banks	24,180	29,928	31,229	31,587	**31,674**
U. S. gov't guaranteed obligations held, reporting member banks	33,275	30,856	29,640	29,675	**28,972**
Total federal reserve credit outstanding	26,424	25,016	27,472	27,563	**27,989**

MONTHLY FIGURES OF THE WEEK		1953-55 Average	Year Ago	Month Ago	Latest Month
Exports (in millions)	**April**	$1,290	$1,530	$1,456	**$1,468**
McGraw-Hill Indexes of New Orders (1950=100)					
New Orders for machinery, except electrical (seasonally adjusted)	**April**	104	134	166	**188**
Construction & mining machinery	**April**	111	160	224	**212**
Engines & turbines	**April**	106	121	225	**208**
Pumps & compressors	**April**	120	150	250	**250**
Metalworking machinery	**April**	125	78	183	**187**
Other industrial machinery	**April**	95	140	156	**181**
Office equipment	**April**	109	171	222	**187**
New contracts for industrial building	**April**	128	79	115	**127**

** Preliminary, week ended May 23, 1959.*
† Revised.
†† Estimate.
*** Ten designated markets, middling 15/16 in.*
§ Date for 'Latest Week' on each series on request.
 # Insufficient trading to establish a price.

THE PICTURES—Cover—Grant Compton; 30—W. W.; 32—Herb Kratovil; 33—Federal Reserve Bank of New York; 45—Grant Compton; 65—Ezra Stoller from IBM; 68—Caterpillar; 73—U. S. Industries; 118—Central Press from Pictorial Parade.

B U S I N E S S   W E E K

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READERS REPORT

Fair Tax Treatment

Dear Sir:

The N.A.M.—with its high-powered lobby—has a nerve to claim in Tax Reform Gets Popular Again—for 1960 [BW—May16'59, p28] on page 29 that the self-employed constitute a special pressure group asking preferential treatment by the Treasury.

The self-employed, of whom I am proud to be one, are about the only people left who have the courage to try to get along by their own efforts—with no help from government subsidies, public financing, or any of the myriad devices whereby someone else takes the risk or makes up for the failures. We cannot constitute a pressure group because we are such independent thinkers that we prefer to go it alone.

The bill that would give the self-employed relief from the discrimination that now makes it impossible for him to provide for himself the same pension protection that he is buying for others (by taxes that pay Civil Service pensions and by high prices that pay for the pensions of both union members and high-salaried corporation executives) is not a demand for preferential treatment. It is a plea for fair treatment. But because the self-employed have no organized lobby, this bill serves as a "horrible example" for the pious souls who claim to be the sole repositories of civic virtue.

The individual enterpriser has been responsible for the start of everything that has made this country great. This fact has been lost sight of in the present-day obsession with security. Unless the United States is to become the archetype for a George Orwell 1984 society, steps must be taken to avoid the extermination of the individual enterpriser. Fair tax treatment is one of these necessary steps.

CLARENCE W. METCALF
ENGINEERED ADVERTISING
SHARON, MASS.

Interest in Economics

Dear Sir:

Congratulations on your wonderful article on economic booksellers and Gus Kelley in particular [BW—Apr.25'59,p58]. As one with considerable experience in these matters, may I say that Kelley's great and permanent contribu-

tion to economics and economics collecting has been his courage and perseverance in bringing back into print so many fine 'lost' economic works. Not many know the real sacrifice entailed in such a venture. At best, it could hardly repay him for his time and cost. . . .

Nor should those interested ever forget the contribution also of Leon Kramer, who in my opinion gets the laurel wreath for generating large-scale collector interest in economics. Kramer did much to make American economists conscious of their heritage. . . .

As for myself, I think my firm still has the largest stock of economics in this country. Publishing interests, unrelated to economics, have caused us lately to rather neglect our own fine collection, still pretty much intact. I have one distinction that hasn't been seriously challenged as yet, having brought out, a few years ago, an economics catalog of almost 200 pages—the largest ever issued in the U. S. I feel badly about letting our wonderful books lie fallow.

BURT FRANKLIN
BOOKSELLER AND PUBLISHER
NEW YORK, N. Y.

Idiot Consumers

Dear Sir:

You report under a special heading in In Marketing [BW—May2 '59,p67] that the FTC was "scored" by a large store for over-protecting the American consumer and for thus creating a "race of idiot consumers."

The argument ran in effect as follows: If the American consumer does his shopping abroad he may be at the mercy of fraudulent advertising tolerated in such countries. Therefore, a certain amount of such deceptive advertising should be tolerated by the FTC in order to train the American consumer in such evil practices. Therefore, the store has the right to advertise an alleged saving of $80 on an item which actually was never sold at the $80 higher price.

For an old admirer of your fine publication it was rather painful to gain the impression as if you were in agreement with this type of business ethics. Would you be good enough to reassure your friends that that was not your intention?

MAX I. STAUB
FOREST HILLS, N. Y.

• Who said we agreed with Curtis' stand? The article appeared as a news section item in which we make no editorial comment.

A compressed air jet, shown at lower right (above) of this hospital incubator, provides moisture-saturated air to help infants breathe. Note vapor mist.

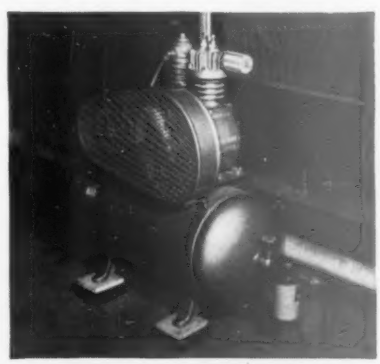
New safeguard for the newborn: oil-free air

Giving the newborn the best possible start in life is a vital problem in any hospital nursery. To safeguard such tiny patients, medical and physical science today muster every possible resource.

A large Midwestern hospital has found one such resource in compressed air—nebulized with water vapor to help infants breathe more easily by clearing their lungs of harmful mucus. This hospital provides such care for all premature and Caesarean babies, as well as for full-term babies having mucus or shallow-breathing conditions.

The compressed air used for this purpose must be pure and entirely free from oil vapor, often carried off from the lubricant in most air compressors. The answer was found in a Gardner-Denver CACB carbon piston compressor, which uses no oil at all in the cylinder or crankcase and which has pistons and piston rings made of self-lubricating carbon.

As science and invention find new uses for compressed air, Gardner-Denver, now celebrating its hundredth year, is proud of its ability to provide air compressors and air tools for every requirement. Gardner-Denver Company, Quincy, Illinois.



Gardner-Denver CACB carbon piston compressor

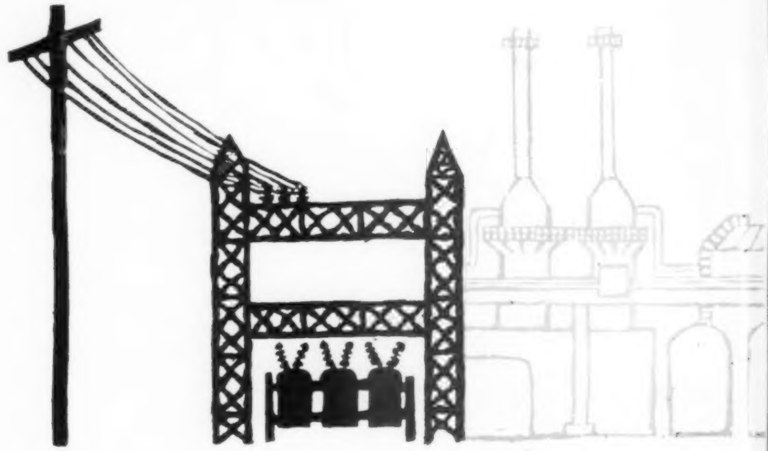
GARDNER-DENVER Since 1859

100 1959 YEARS

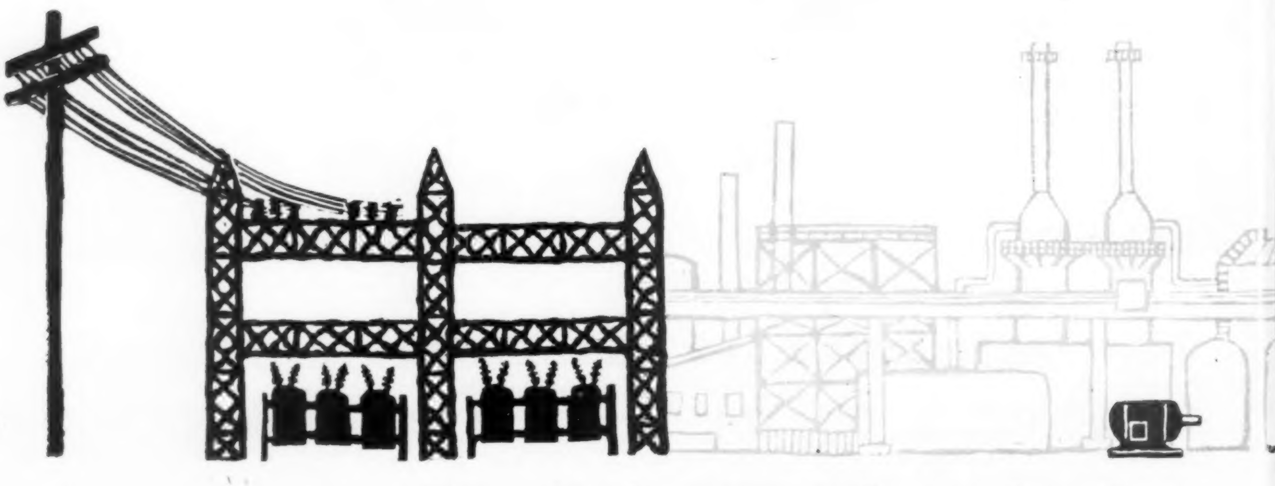
EQUIPMENT TODAY FOR THE CHALLENGE OF TOMORROW

GARDNER-DENVER

POWER-UP FOR PROFIT

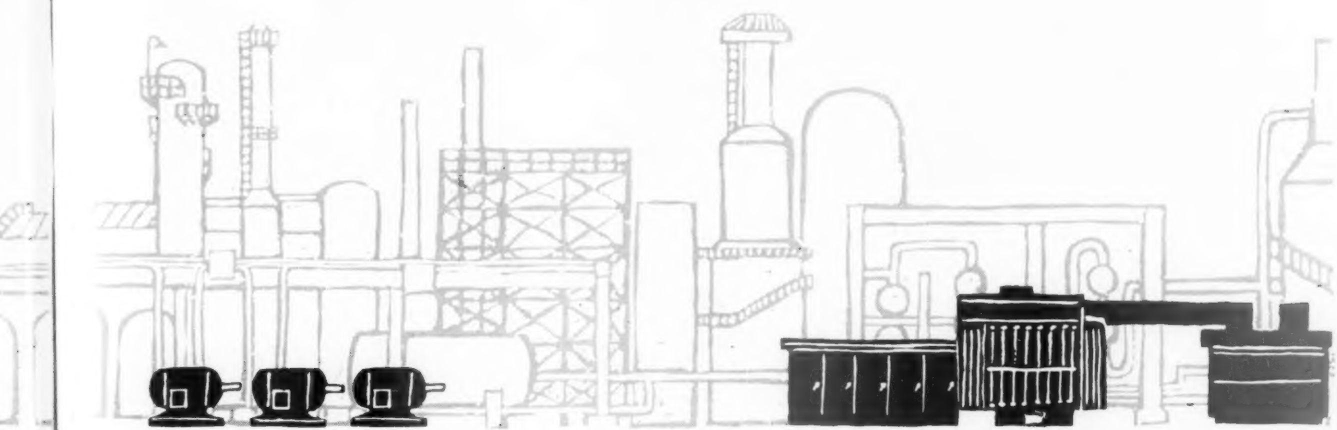


Sinclair Refining modernized

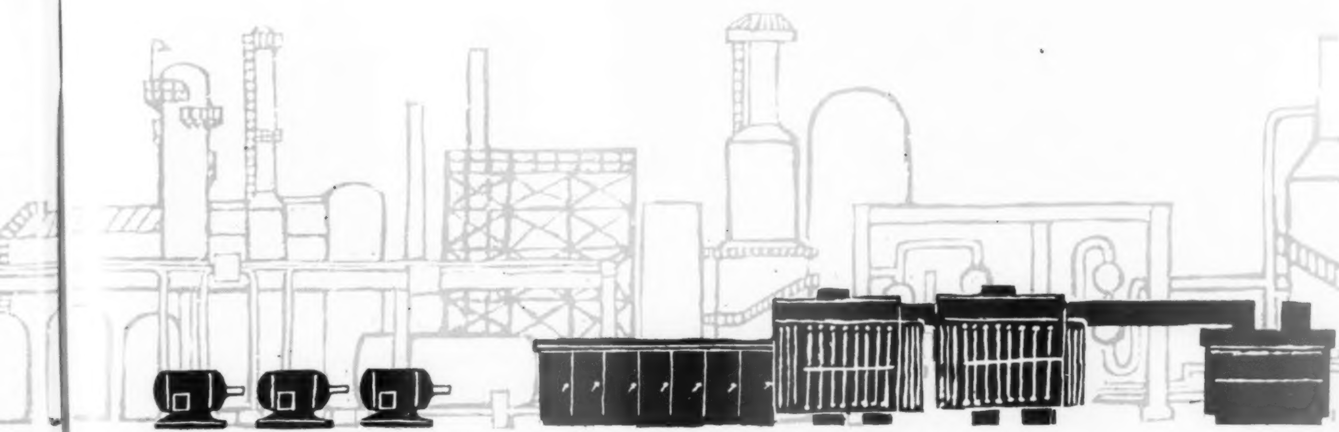


Result: increased production,

ELECTRICALLY



and expanded their Houston refinery



improved products, reduced costs

Greater use of electrical energy and up-to-date electrical equipment can help you get a better return on your investment through improved operations. In your plant, it may be higher capacity machinery, more efficient equipment or engineered controls. Whatever the need, maximum use of low-cost kilowatthours can help you earn satisfactory profits.

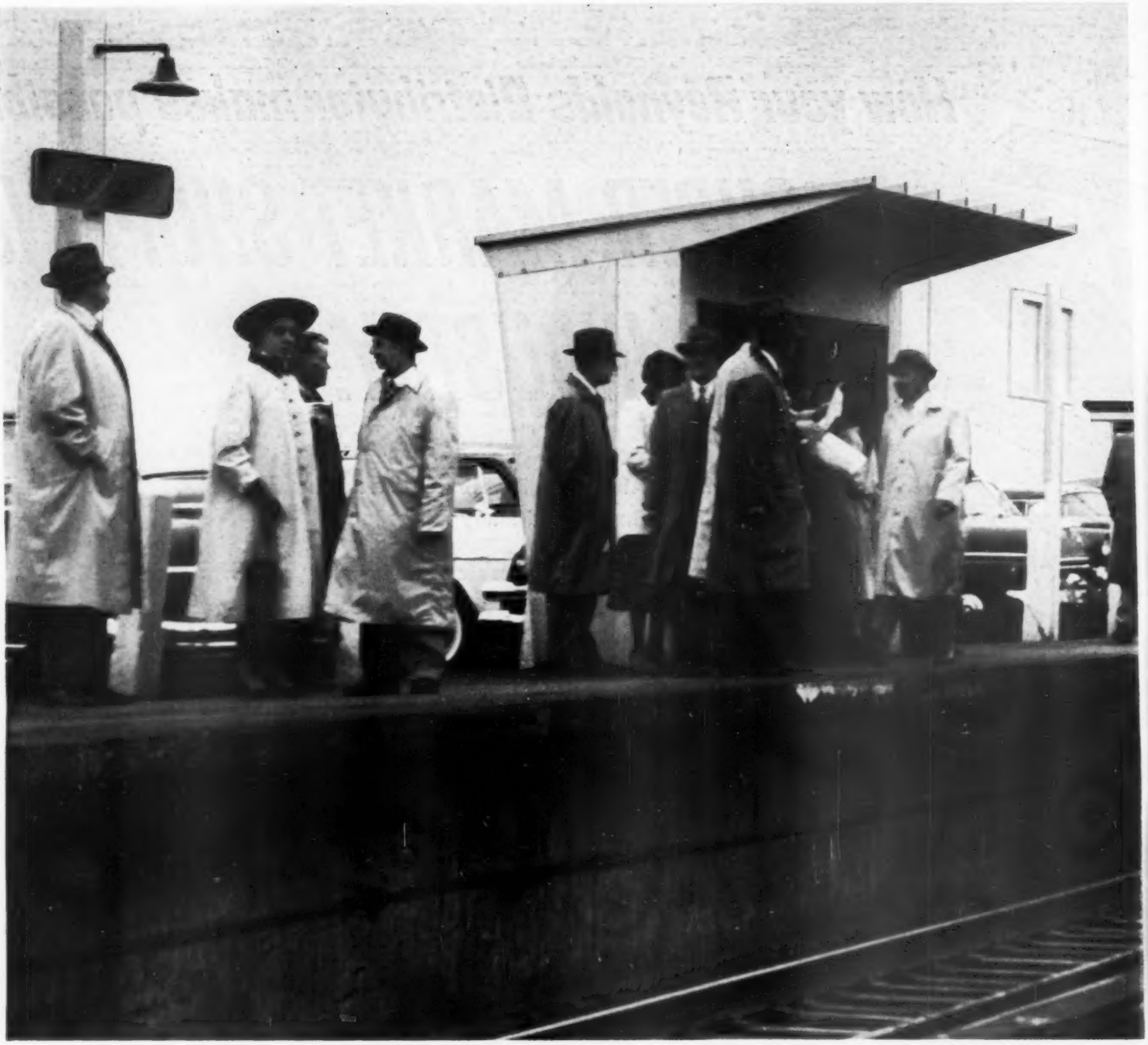
You will need more capacity to meet the 40% increase in demand for goods by 1965.

Be sure—like Sinclair Refining—that your electrical equipment is engineered to produce earnings as well as output. Call your Westinghouse representative. He can tell you the electrical steps you can take now to start a Power-Up program in your plant. J-96129

YOU CAN BE SURE...IF IT'S **Westinghouse**

WATCH "WESTINGHOUSE LUCILLE BALL-DESI ARNAZ SHOWS" CBS TV MONDAYS


The Finest Products
Made with Aluminum
are made with
REYNOLDS ALUMINUM



Long Island Rail Road goes Gulf . . . racks up

GULF MAKES THINGS

While railroads all over the country are curtailing commuter schedules, the rejuvenated Long Island Rail Road is booming. Running trains as close as 30 seconds apart during rush periods, they carried a record 73,608,620 passengers last year—20,000,000 more than the nation's next busiest passenger railroad.

They also achieved the best yearly on-time record of any railroad in the New York area, with an amazing 98.1% of their 650 daily trains arriving on time.

Knowing that a railroad is no more dependable than its locomotives, the Long Island lubricates them all with Gulf Dieselmotive—a highly detergent oil that keeps engines running remarkably clean. Here's the word on it from Mr. P. H. Hatch, Chief Mechanical Officer.

"We keep our engines running cleaner through preventive maintenance including lubrication with Gulf Dieselmotive oil. Our cleaner engines run longer between overhauls. Engine failures have been drastically reduced. Maintenance costs are down, and our passengers are getting better service than ever."

If *your* company uses petroleum products in any way—as fuels and lubricants for company cars, trucks, or plant machinery—see how Gulf makes things run better. For prompt action, call your nearest Gulf office.

Most complete steel-service centers

in principal cities coast to coast

LARGEST STOCKS

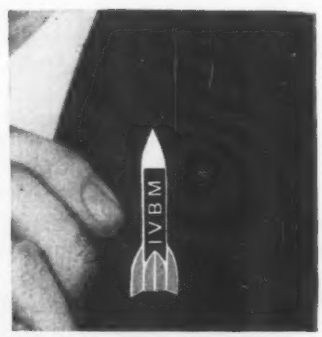
Year in and year out Ryerson stocks are by far the largest in the nation —and today they are at an all-time high in size and diversity.

HIGHEST QUALITY

The most exacting controls assure you of material that is properly identified, accurately cut, carefully handled—and quality-certified.

UNEQUALLED CAPACITY TO SERVE

Giant stocks and vast processing facilities, backed by 117 years of service experience make Ryerson your most dependable source regardless of the shape, size, quantity or time requirement.



IVBM—Increased Value in Buying Metals. This rocket lapel pin symbolizes our 1959 program to give you new highs in value. Ask your Ryerson Representative about IVBM.

RYERSON CERTIFIED QUALITY

RYERSON STEEL®

Member of the INLAND Steel Family

PRINCIPAL PRODUCTS: CARBON, ALLOY AND STAINLESS STEEL—BARS, STRUCTURALS, PLATES, SHEETS, TUBING—ALUMINUM, INDUSTRIAL PLASTICS, AND METALWORKING MACHINERY.

BUSINESS OUTLOOK

BUSINESS WEEK

MAY 30, 1959

A BUSINESS WEEK SERVICE

Steel may dominate the news—but keep an eye on the customers.

With money spilling out of their pockets, **the customers are lifting retail sales to all-time high levels now.**

And their incomes are going to continue to rise. That spells continuing gains for the stores—and the biggest gains will come in the metropolitan areas. It's urban workers who are doing best.

—•—

Merchants are feeling the new zip among customers right now. In May, stores almost certainly hit an all-time high for the month—with sales on a seasonally adjusted basis of more than $18-billion.

And merchants feel good about the rest of the year. They ought to rack up total retail sales of $215-billion—that's 7.5% ahead of last year.

There are some soft spots around the country. New York, for example, took it on the chin this month with a three-week strike of delivery service men. Appliances lag in many cities. It's autos and home furnishings that star among durables. Softgoods are up 5%.

It's still early in the year, though. Prospects for the merchants for the rest of the year are very good, better than most thought in January.

—•—

Look at what's happening to personal income, and you see a real surge shaping up for the nation's retailers.

Since February alone, payrolls have jumped $6-billion. And that's only one measure of the rise in incomes.

Personal income over-all—the total of people's incomes—should touch $375-billion this year. That's a good $20-billion over last year.

The striking thing in the income figures is what's happening to families' incomes. It's worth taking a close look at.

The strictly average U.S. household—counting both families and unattached individuals—will have an income this year of about $6,480. That's about $260 more than last year.

But urban families will do much better—an average among non-farm families of $7,550. That compares to $7,300 last year and only $6,626 in 1955.

Most of this year's gains are real—they won't be offset by higher prices.

—•—

This urban market is big and growing rapidly. This year more than half these families—54% of them—will have incomes over $7,500. There are almost 15-million of them. Their combined income is more than $180-billion. Looking ahead to the 1960s, this will be an even more affluent market.

Two very significant trends account for the rapid growth of these well-off urban households.

We have more and more professionals in the labor force. There are more salaried jobs—which means steady pay, and relatively high pay.

Families of salaried workers are especially likely to have incomes of $10,000 or more. As their numbers increase, the averages go up.

Clerical and sales workers are another big urban group. Their numbers —and their incomes—are rising fast.

Incidentally, **a lot of manual workers**—"craftsmen and operatives" as they are classified by the Census Bureau—now fall into the upper-income group. Families of these workers are the largest single group in the over-$7,500 class. They make up almost a third of the total, but their number is growing relatively slowly.

It's working wives, though, that are the Number One reason putting many families into the upper income brackets. Figures on this are impressive now—and the trend is sure to become more important.

Look at the families at the top of the income scale—the top 20% of all families. **Some 40% of the wives in this group hold steady jobs.**

And as business picks up this year, and more women go to work, there'll be another boost to incomes for many families.

There are fewer and fewer families on the other end of the scale— those with incomes of less than $6,000 a year. These are usually headed by older people, retired men, farmers, or by women. One main cause of the drop here: the steady falling away in the number of farm families.

—•—

The employment picture looks brighter and brighter.

May saw improvements in 90% of the U. S.' 149 major job markets, according to a Labor Dept. survey. Fourteen of these have picked up enough health so they are no longer classified as having a substantial labor surplus.

One key to the employment situation is the pick-up in durables. Among the cities on the mend are these important centers which are dominated by hardgoods: Chicago, St. Louis, New Haven, Syracuse, Youngstown, and Lorain-Elyria.

Government figures on unemployment compensation also indicate a sharp drop in the number of jobless in May.

The total number drawing jobless pay has been falling at the rate of 100,000 a week since mid-April.

And initial compensation claims—a sensitive barometer of job conditions—are now no higher than in pre-recession 1957.

—•—

The revival in business generally hasn't yet been reflected in orders for the machine tool industry.

April saw a modest rise in orders—$2-million. That brought the total for the month to $53.5-million. That's better than the same month last year, but backlogs are well below every other year going back as far as the Korean War.

The industry has hopes, though. Before long Detroit should place more orders for the tools it will need for 1961 models.

DOW | **CHEMISTRY . . . *rich new vein of better packaging ideas***

Packaging our gross national product has grown to be a fifteen billion dollar business annually. Why? Because there is a constant demand for improved packaging methods in almost every phase of business. At Dow, packaging chemistry is proving to be a vital source for ideas on how to make more efficient packages at lowest costs. Some recent developments from the chemistry of packaging are shown here for your inspection.

New Low-Cost Film Gives Soft Goods Hard Sell

Soft goods manufacturers are benefiting today from Trycite*, a product that wasn't even on the drawing boards a few short years ago. This is the result of taking polystyrene's well known advantages in rigid packaging and applying them in flexible *film form.*

Trycite holds up under rough handling and retains its sparkling clarity without wrinkling . . . properties soft goods manufacturers have been looking for a long time. What's even more important, this "breathing" type polystyrene film does its job at low cost. So low, in fact, that dozens of soft goods, meat, produce, baked goods, gift wrap and window envelope makers have become satisfied users in the past year.

*TRADEMARK OF THE DOW CHEMICAL COMPANY

NEW COATING

makes good films even better

Conventional plastic packaging films can now be improved for much broader application simply by the addition of SARAN resin coating. This product of Dow packaging chemistry reduces and sometimes eliminates certain limitations of such materials as polyethylene, cellophane, polyester film, aluminum foil. A thin coating of SARAN resin on packages like those shown here keeps flavor and freshness locked inside. SARAN resin also gives polyethylene bottles and tubes added impermeability to grease, oils, acids, bases, and many organic liquids and vapors. For extra performance and extra sales, you'll find the small extra cost of SARAN resin coating well worth adding.

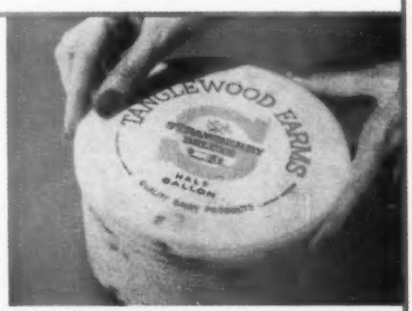
FRAGILE PARTS

get shockproof cradle

Now even the most intricate convoluted shapes can have custom-tailored, contour shockproofing, thanks to Pelaspan®, which is made from expanded polystyrene. Pelaspan expandable beads can be molded to fit any shape. Pelaspan assures delicate, fragile products the shockproof, lightweight packaging they need to survive shipping and handling. It's especially good when you have to get expensive products there safely—like the sensitive broadcast TV microphone in the picture. And clean, white Pelaspan makes an ideal display package after the product arrives.

TWO MORE PACKAGES WITH THE "BIG DIFFERENCE"

THE BIG DIFFERENCE Styron® makes in ice cream containers is *visual*. Not only do these shiny rigid containers look good, they let the natural goodness and quality of the product show through. One ice cream manufacturer increased sales 50% when he switched from conventional cartons to Styron.



THE BIG DIFFERENCE SARAN WRAP* makes in food packaging is *tangible*. This satin-soft protective film looks and *feels* good . . . makes customers instinctively reach for products. SARAN WRAP has sparkling clarity, low moisture-vapor transmission and excellent resistance to fat, grease and oil. It's the same wrap millions buy in the familiar green package for daily household use.

*TRADEMARK

Dow has geared the broad scope of its facilities and materials knowledge to serve industry's needs for better packaging. Perhaps some of the packaging ideas we're working on now would be right for your product, or your packaging problem. We'd be happy to talk to you about it soon.

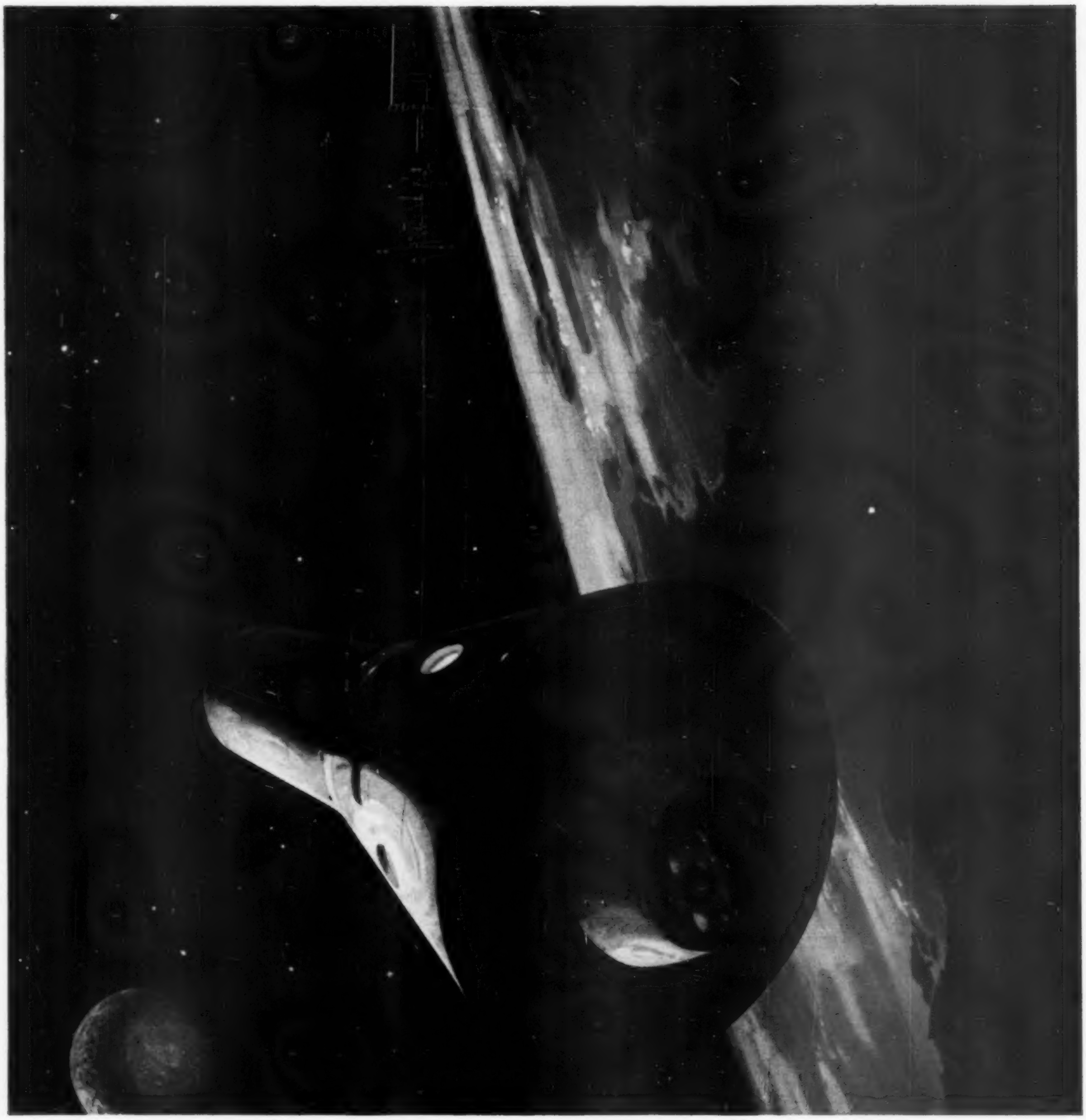
DOW PLASTICS BASIC TO PACKAGING

Molding Materials • Films • Film Resins
Sheeting • Coatings • Expandable Beads

THE DOW CHEMICAL COMPANY

MIDLAND, MICHIGAN

DOW



BUSINESS WEEK
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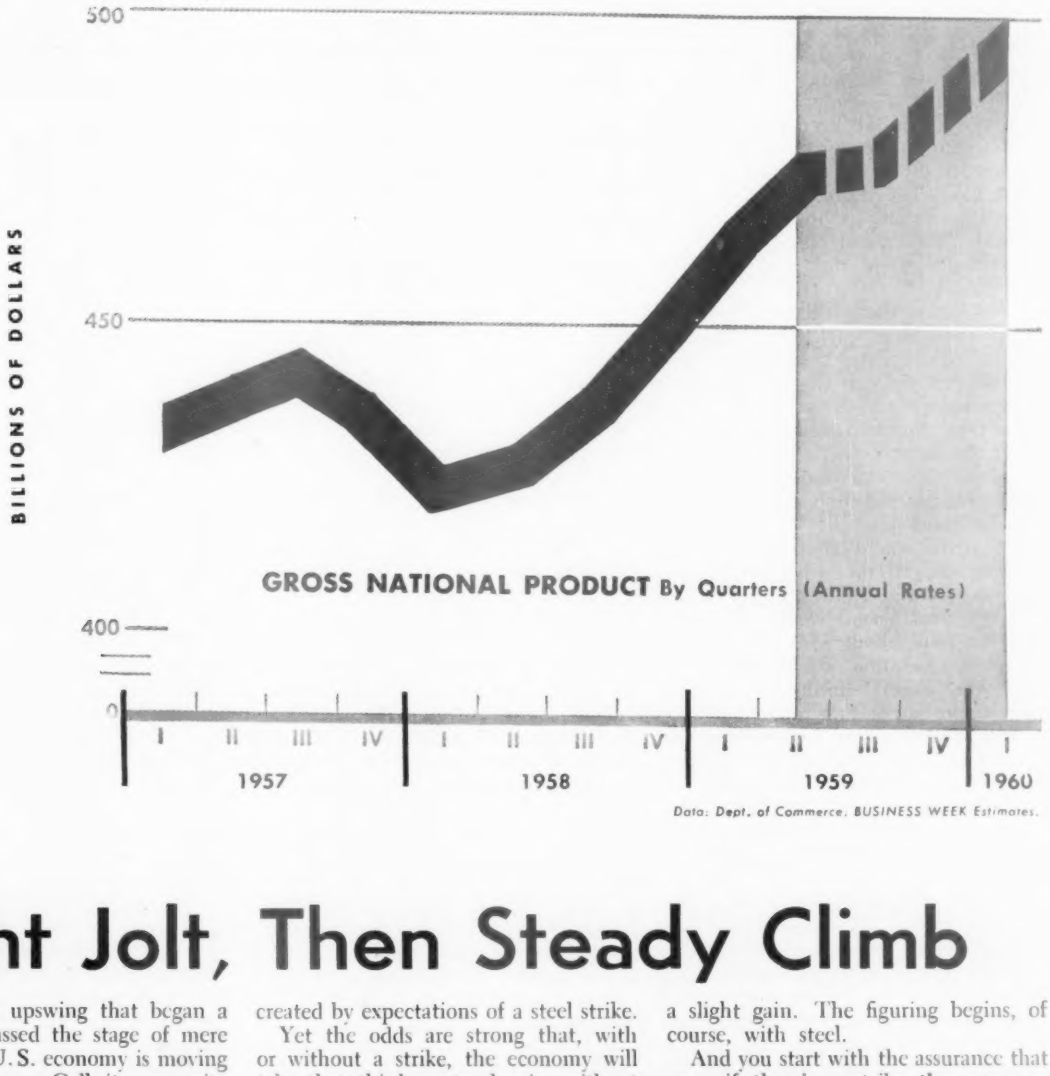


Data: Dept. of Commerce; BUSINESS WEEK Estimates.

Slight Jolt, Then Steady Climb

The business upswing that began a year ago has passed the stage of mere recovery. The U. S. economy is moving into a new phase. Call it prosperity or call it boom—or call it what you like. But you have to recognize it as a strong, ongoing, almost classical expansion that will carry gross national product up to the half-trillion mark in early 1960 (chart).

The economy has to take one more hurdle, though, before it lands in the clover field. That's the third quarter of 1959—perhaps with the strains of a steel strike, in any case with a slowdown in steel production and inventory building. Strike or no strike, such a slowdown is bound to follow the abnormally high first-half levels of steel production created by expectations of a steel strike.

Yet the odds are strong that, with or without a strike, the economy will take that third-quarter barrier without a drop in total production. To be sure, the third-quarter gain in GNP may be only at an annual rate of about $2-billion, compared to boosts of $14-billion in the first quarter and about $11-billion in the second. But the slower third-quarter gain will be followed by a spirited expansion toward the end of 1959 and on into 1960.

I. Getting Over the Hurdle

Here's why it looks as if the overall economy will get past that third quarter without a drop, and even with a slight gain. The figuring begins, of course, with steel.

And you start with the assurance that even if there's a strike **the economy won't be choked for lack of steel.** It figures this way. We started the year with about 15-million tons of steel in inventories. In the first quarter, steel inventories grew by 2.5-million tons. (Consumption: about 28-million tons. Output: 30.5-million tons.) In the current quarter, steel stocks will go up another 5-million tons and more; consumption has been rising, to an estimated 28.5-million tons, but by June 30 output should total 34-million tons.

So, by the time the steel contract runs out, steel stocks will be up to

around 21-million to 22-million tons. That should be enough to get the economy, without serious damage, through a strike lasting, say, six weeks, or possibly a couple of weeks longer (the 1956 strike lasted five weeks and two days). At this point, obviously, no one can know whether there will be a strike, if there is one, or how long it will last; yet experienced observers feel almost sure Washington would not permit one to go on beyond the point where it threatened to cripple the economy and the nation's defenses.

However it works out, **business inventories in the aggregate are going to increase in the third quarter—though at a markedly slower rate** than in 1959's first half. The degree of third-quarter inventory change, however, depends mainly on events at New York's Hotel Roosevelt, where the steel bargainers are tussling.

For, again, the calculation starts with steel inventories. If there's no steel strike, third-quarter steel consumption should dip—but only slightly and mainly for seasonal reasons—to about 27-million tons. Steelmakers would likely cut back production, possibly to 25-million tons (or slightly under 70% of capacity). That would chop steel inventories by 2-million tons.

A strike would chop out a much bigger slice. If the strike lasted about as long as the 1956 stoppage, third-quarter steel output would fall to 20-million tons (about 55% of capacity). Steel consumption would drop, too—but the general business expansion would prevent a fast drop. Say steel consumption fell to 26.5-million tons (2-million under the current quarter). That would slice 6.5-million tons out of steel inventories. Translated into dollars, that would be about a $4.5-billion drop in inventories, figured at annual rates.

Would such a drop give total business inventories a knockout blow? The answer is no. Business has been building up stocks of many other things besides steel. In 1959's first quarter, total inventories rose by $5.5-billion, in the second quarter by about $7.5-billion. Steel contributed to this less than $2-billion in the first quarter, about $4-billion in the second.

So even with a $4.5-billion drop in steel stocks in the third quarter, total business inventories would still edge up by perhaps $1-billion to $2-billion. That estimate also takes account of some working off of dealers' auto stocks, now hovering around 1-million cars (page 27).

• **Pull and Push**—It's true that such a drop in the rate of inventory building, from a $7.5-billion rate in the second quarter to a rate of $1-billion to $2-billion in the third, represents **a downward pull of some $6-billion on the economy. But this will be more than offset by a number of factors that will be pushing the economy upward:**

• **Capital spending** on new plant and equipment will be spurred on by industry's drive to modernize, by its very healthy cash position, by growing optimism about the sales picture. It should rise by about $1-billion in the third quarter, to an annual rate of $33.5-billion.

• **State and local government spending** should go up about $900-million, to an annual rate of $44-billion.

• **U. S. exports,** responding to business expansion abroad, should expand by $500-million or more.

• Most important of all, **consumers**—better heeled all the time, from rising wages and rising employment, will spend about $5-billion more. Their recent buying performance has pushed retail sales this year past the record levels of 1957. This is powerful evidence that an appetite for goods is not yet an archaic American trait.

These upward pushes will balance out the downward pull of the slower rate of inventory building in the third quarter with some $2-billion to spare. This gain in GNP may get a slight further boost from federal government spending in the first months of the new fiscal year —depending on how the budget battle comes out.

II. What Lies Beyond?

With the third-quarter hurdle surmounted, what lies beyond? Boom—which could take on a frightening and inflationary look before long? A steady and healthy rising prosperity? Or something in between?

Much depends on what happens to capital spending for new plant and equipment, to autos, to exports. Much will depend also on the government's fiscal and monetary policies, and on the behavior of U. S. investors (including a growing number of barbers and bootblacks), some of whose antics bear unpleasant resemblances to those of their counterparts in 1929.

Thus far, recovery has been accomplished with scant help from new plant and equipment purchases or from autos, and with exports actually exerting a drag. If all three should turn boomy, the nation's problem might quickly shift from how to extend the climb to how to curb an unhealthy inflation.

• **Steady Prospect**—But it's hard as yet to make a powerful case for inflationary trouble from these sources:

• Capital spending promises to go on rising—but not to boom proportions for a while, because capacity isn't yet strained and no strain seems in sight for some time (BW—Apr.18'59,p25). Its growth promises to sustain prosperity, not to blow it up.

• The auto industry can't see 1959 as anything better than a 6-million-car year. In the first half, U. S. auto makers will build about 3¼-million cars; second-half output looks like about 2¾-million. The new small cars may have a terrific impact, as the 1955 models did; but from here no one can say for sure (certainly not Detroit, which wants most to know).

• Recovery in U. S. exports looks like just a healthy growth, and—unfortunately, many would say—nothing sensational. Exports this year have been way down, imports way up. In the second half, exports of machinery, trucks, wheat should improve. Cotton exports will at least double, because of depleted stocks abroad and the new low price—resulting from higher subsidies—offered by the U. S. after Aug. 1.

The export rise may be slow, but it should be steady—as other countries leave their mild recessions behind and fill out their needs with U. S. goods. (If it isn't, the strain in the U. S. balance of payments is going to need major attention.)

• **1960 Hopes**—Without a sharp outbreak of inflation to bring Federal Reserve guns into action—and both the cost-of-living index and the Fed have been remarkably quiescent, considering the strength of the advance—the boom may live to a fairly ripe old age. The Administration fervently hopes that will carry it beyond November, 1960.

This would also greatly help in Treasury Secy. Anderson's fiscal and debt management problems. Even if expenditures break through the bars a bit, the gain in tax revenues should be enough to give Pres. Eisenhower his balanced budget, with maybe a little to spare. This balanced budget would not be deflationary, but it should keep federal finance from being an important inflationary force.

Rising interest rates and gradual tightening of money are likely to bring a modest decline in the U. S.' favorite contracyclical industry—housing—which has been running at a near-record 1.4-million starts. This will help moderate inflationary pressures.

• **Biggest Worry**—The biggest worry is what U. S. investors, speculators, and gamblers will do—and not just those whose habitat is Wall Street. One of Eisenhower's key economic advisers says, "The financial markets are still in the grip of an inflationary psychology. By that I mean people with money are bidding up the price of existing assets—stocks and land—instead of lending their money to create new assets."

Whether these plungers can wreck the ship is the concern of many—including the plungers. But with business still on a broad-based rising trend, fears of a financial crash that would affect business seem premature to most.

Squeeze on the Auto Market?

● **With record inventories in the middle of the '59 model year, dealers face advent of the compact cars.**

● **Survey finds opinion widely split on the effect of Ford's Falcon, GM's Corvair, and Chrysler's Valiant.**

● **In any case, sales are generally brisk, with Ford and Chevy in a tight race for the No. 1 spot.**

The nation's auto dealers this week faced two situations either one of which would normally have them jittering:

- They have more unsold cars on hand than ever before.
- Right in the middle of the 1959 model year, Detroit has promised to be offering smaller and more economical cars within a few months.

The inventories, estimated at close to 1-million cars, were to some extent balanced by the best sales pace that most dealers have enjoyed since 1957, and by the chance that a long steel strike this summer might shut down production of 1959 models prematurely.

• **In a Bunch**—But the long-heralded compact car announcements were something else. The facts have been known for months. But officially Ford, Chrysler, and General Motors until last week would say only that they were studying the market. Then it all became official.

On Thursday, Henry Ford II told stockholders that "barring changes in the market or other circumstances" the company would introduce the Falcon (BW–May2'59,p28) during the 1960 model year.

Within hours, Chrysler's L. L. Colbert made a similar announcement about the Valiant, expected in November after the introduction of the rest of the Chrysler line.

Next day, GM's Chmn. Frederic G. Donner told his stockholders that the Chevrolet Div. would introduce and market the Corvair (BW–Mar.7'59, p34) at the same time as the rest of the 1960 line.

• **Dealer Views**—The question was: Would these almost unprecedented early announcements discourage sales of the current models? The general manager of one Big Three division doubted the effects, if any, would be felt before July or August. Dealers who talked with BUSINESS WEEK reporters across the country this week offered varying opinions on the compact cars.

"I think they are overdue," said a Ford dealer in Houston.

In Atlanta a Plymouth dealer commented: "I am happy over the announcement. It's impossible to say what its effect on sale of standard cars the rest of this year will be, but for long range it should be a boon to us."

In Atlanta, a Chevy dealer says, "Our sales are already slowing up. There has been too much talk of the coming of this smaller car. People are waiting to see what it will be. Once they've seen it, I don't think it'll continue to cut into standard sales."

"If they're interested in a small car, they don't want a Chevrolet anyhow," says another dealer. "It's the import buyers who are hesitating."

• **Characteristics**—Although GM's Donner carefully refrained from discussing details, it has long been known that the Corvair will feature a six-cylinder, air-cooled, rear-mounted aluminum engine (BW–Jan.17'59,p29). It will resemble a dual-headlighted Renault Dauphine with the circular expanse of rear window common to '59 GM cars.

The Ford Falcon will offer a small, overhead-valve six of about 90 hp., conventionally located in the front of a car which looks something like the larger English Fords. Only Ford dealers will sell it, but M-E-L dealers may get a different and still unannounced small car of their own.

The Valiant from Chrysler will also have a new, small six-cylinder overhead-valve engine, possibly of aluminum. Styling of the unitized body will follow the dart theme established by the larger Chrysler cars.

• **Brisk Pace**—If the Detroit auto makers had to announce the small cars in advance of introduction, they couldn't have picked a better time from the sales point of view.

After a model year start marred by strikes, Ford and Chevrolet have settled down to a surprisingly close sales race. Ford, with a newly styled but three-year-old body, got a head start in October. The all-new Chevy, shut down by strikes at first, snapped back with overwhelming deliveries in November, December, and January. In February, the traditional leader beat out the challenger by a few thousand units, but in March, much to the surprise of everyone concerned, Ford outsold Chevy by several hundred cars. Ford followed this in April by outselling Chevrolet some 127,000 units to 117,000.

This month, with both Ford and Chevy pushing sales with dealer contests, Chevy appeared to have regained momentum. Industry observers believe that if one make or the other doesn't pull out ahead during May or June, you'll see a photo finish at yearend.

• **Medium-Price Range**—The medium-priced field continues to have its contradictions. Pontiac and Oldsmobile pose a real threat to Plymouth's third place, but other middle-bracket makes are feeling the squeeze. In the luxury field, Cadillac is having its best year—at the expense of Lincoln and Imperial. As for the little two, Rambler and Lark, and the imports, industry officials note they are selling at a combined 1-million a year rate, in what appears to be a 6-million-unit year. They're in a world of their own—until the Big Three small cars come out in the fall.

"Anyone who knows the ancient art of falconry knows what a Falcon can do to a lark," quips a Los Angeles Ford dealer. "Ford is taking dead aim at American Motors and Studebaker-Packard."

But a Rambler dealer in California replies, "They can't push the cheapies too hard or they'll hurt sales of their other cars." A foreign car dealer in Houston thinks the new small cars would stimulate interest in his cars, but concedes the imported field might be cut to three or four good sellers.

"The impact will be on late used cars in the $1,600-$2,300 range," an Atlanta dealer believes, echoed by another on the West Coast.

• **Rush Expected**—In any event, Big Three dealers are prepared for strong demand for the small cars.

"The little Chevy should help sales and profits," predicts an Atlanta dealer, who feels the newness will create interest and put dealers in a better bargaining position. A Ford dealer in Los Angeles believes small car prospects can be upgraded: "We'll convince them they do want one of the big Detroit monsters after all. It's the same thing as advertising Business Tudors—we don't really want to sell them but the low price brings people in."

The view isn't all rosy. Some dealers are afraid the small car price will be too close to the existing stripped Fords, Chevies, and Plymouths. Others think Detroit will never be able to match the quality of workmanship offered by European cars. A Buick dealer in Chicago predicts small cars will be a thing of the past in five years, because their prices will have inflated to the level of present-day standard models.

Boosting the Debt Limit Again

Congress is about ready to stage its ceremonial raising of the public debt ceiling once more.

Before a new fiscal year begins July 1, the statutory debt limitation will be increased enough to accommodate the $13-billion deficit that the recession of 1957-58 created in the current year's budget.

It will be the third recession-born increase in a year and a half. By a narrow margin, it may turn out to be the largest of the three—perhaps $9-billion compared with $8-billion last September (table).

Like the other increases, this one will be accompanied by many a solemn statement for lawmakers about fiscal irresponsibility and by a chorus of Democratic gibes directed at the Administration.

But behind this gesturing—which is for the benefit of voters back home—will be a general acknowledgement that the ceiling must be raised to make it conform to the facts of life.

When the new ceiling is voted, it will be somewhere close to $290-billion, up $15-billion or so from where it stood at mid-1957.

• **Bright Spots** — Two possibilities brighten this otherwise gloomy debt picture:

Most of the new limit, whatever the amount, will be temporary. Congress and the Administration will agree on a figure high enough to accommodate the rise in the debt that always occurs in the July-December period when tax receipts are low. This purely seasonal rise is expected to be around $6-billion; so the debt can be counted on to shrink by that amount in the January-June period of 1960 when tax receipts hit a crest. This assumption is safe only if Congress continues its present mood of holding down spending to the levels Pres. Eisenhower is fighting for.

The Administration is preparing a campaign to reduce the debt. In fiscal years 1956 and 1957 it slashed the debt $5.7-billion, and Eisenhower would like to repeat this performance before he leaves office in January, 1961. The fight will be to keep spending increases or tax reductions from eating up surpluses expected in the next two fiscal years.

• **Fiscal Facts**—Acts of Congress placing limits on the amount of public debt have been on the books since 1917, when the first ceiling was $7.1-billion. Ardent supporters of the legislation have always hoped the ceiling would itself become the overriding fact of fiscal life, serving as a barrier against deficit financing.

It does not work that way.

Moving the Ceiling

To Match the Debt

		billions
1957		
January		
Debt	**$275.9**	
Ceiling		**$278**
July		
Debt is down to	**$272.1**	
and Congress lowers ceiling, with Treasury concurrence to		**$275**
1958		
February		
Tax receipts are falling and debt rising, to	**$274.3**	
So Treasury asks Congress for new ceiling, gets		**$280**
September		
With recession deficit looming, debt stands at	**$276.4**	
Congress raises permanent ceiling to		**$283**
and grants a temporary further increase to		**$288**
1959		
July		
Deficit this year will bring debt to	**$286**	
And unless Congress acts ceiling will drop to		**$283**

This year, for example, the deficit results from the slump in business that began in 1957. Some of the new debt was created by anti-recession spending programs. But most of it was created automatically—as business profits and personal incomes dropped, so did tax receipts, and the debt rose accordingly. No one in either the Administration or Congress seriously proposed that tax rates be increased during the recession to keep the debt from rising.

In practice, Congress and the executive departments have spent money for civilian purposes and to win wars, or have watched tax receipts shrink during recessions, without regard for the ceiling. Before debt is allowed to exceed the limit, a higher one is voted.

During two world wars, Congress made 15 increases in the ceiling.

Since Eisenhower took office, the ceiling has been lowered twice and raised three times.

• **Automatic Raise**—Instead of allowing the ceiling to drop back automatically to $283-billion July 1, as it will under existing legislation, Congress on the record can be counted on to raise it once more.

In case of a refusal this time, nobody knows exactly what would happen. But the Treasury is paying out money at the rate of $1.5-billion a week, and its cash reserve would be exhausted within a month.

Bills would go unpaid and federal employees would have to go without paychecks.

Interest payments on Treasury securities might even cease, at least for a time.

Moreover, the debt July 1 will be $2-billion or more over the $283-billion limitation, and assets presumably would have to be sold on a crash basis to get the debt below that figure so the Treasury could perform even the routine refinancing of bills.

Contemplating such possibilities, Congress has always taken care to adjust the statutory ceiling rather than find out exactly what the Treasury would have to do.

• **Elbow Room**—Eisenhower has already said he would ask Congress to raise the permanent debt ceiling from the present $283-billion to $285-billion. Administration officials now are wondering whether this is enough. They predict that the debt will be something over $285-billion by July 1. If it is substantially over, then Treasury officials will argue for a permanent ceiling of at least $286-billion. They would prefer one several billions higher to give themselves room for maneuvering in financing operations.

Best of all, from the viewpoint of a debt technician, would be no ceiling at all. But Congress has come to cherish the periodic debt limit drama and shows no signs of giving it up.

• **Scratch Pad Figures**—Here is the basic arithmetic that Congress will be wrestling with.

The new limit that went into effect last September consisted of a $3-billion rise in the permanent ceiling (from $280-billion to $283-billion), and an additional $5-billion temporary rise to a total of $288-billion. It is this temporary rise that will be wiped out July 1 if the law is not changed.

The problem now is to jack up the ceiling high enough to take a debt of $290-billion to $292-billion by the end of this year. The Administration would again like it in two chunks: a $2-billion or $3-billion permanent rise and $6-billion temporary. This $8-billion or $9-billion total, added to the permanent ceiling of $283-billion now on the

books, would give a new temporary limit of around $292-billion.

• **Brakes on Debt**—In addition to the confusion caused by permanent and temporary increases, there will be questions about whether the Treasury can employ special devices to slow down the debt growth. They have been used in the past, but offer little hope now.

When George M. Humphrey was Secretary of the Treasury, for example, he lessened the debt rise one year by using $500-million of Treasury gold to retire securities. There is still $397.7-million in the gold fund. But Treasury officials do not want to use it to retire debt, particularly in a period such as now when U. S. gold stocks are moving out of the country to offset a slump in exports. They feel the psychological effect on international traders and gold speculators would be bad.

The Federal National Mortgage Assn. intends to offer $350-million worth of mortgages to holders of 2¾% Treasury bonds callable in 1975; on the Treasury books, the effect will be to wipe out that much debt. This won't affect the debt until sometime in fiscal 1960.

The Commodity Credit Corp. in the past has relieved the debt by financing crop loans directly through banks instead of drawing down on the Treasury. It could do this again, but not for sums large enough to solve the current squeeze. Humphrey, who used the method twice, never got CCC to finance more than $1-billion this way.

In case of a bind, Treasury officials could legally hold on to Social Security tax receipts long enough to obtain cash temporarily. Such receipts flow in at a rate of $20-billion per year. They are used to purchase Treasury securities, which are then held in the various trust funds. As soon as the securities are purchased they are added to the debt. By delaying purchase, the Treasury could make its position look better for at least a short time. But officials dislike any suggestions that they would do this. They consider themselves obligated to turn the receipts into interest-earning securities as soon as possible.

• **Big Issues**—Congress never likes to approve a debt rise in the exact form requested by Treasury, and probably won't this time.

The big issues will be whether to grant some increase in the permanent ceiling, as Eisenhower has requested, or to give the Treasury what is required all in the form of a temporary increase.

If Eisenhower gets his way, he could avoid another debt ceiling clash with Congress in 1960. By approving only a temporary rise, the Democrats in control of Congress could make certain that the Administration will have to go through all the motions again in an election year.

What Ford Seeks in Canada

Its offer to buy up to 75% ownership of Canadian Ford appears to be a business investment, but it also has a connection with Canadian prospects for the new smaller cars.

On the eve of Big Three entry into the compact—if not small—car field, Ford Motor Co. seeks to go more deeply into ownership of Ford Motor Co. of Canada, Ltd. Dearborn Ford already owns 27.5% of Canadian Ford; now it wants to build this to 75%.

The parent company is well fixed for cash. On Mar. 31, it had nearly $618-million in cash and marketable securities. Start-up costs for the compact Falcon and for normal changeover of existing models won't require all that capital, so a deeper investment in Ford of Canada must look attractive to Dearborn.

• **Foreign Market**—Ford of Canada owns the companies in Australia, Malaya, and South Africa, and earnings from those subsidiaries helped build sales last year to $462-million from $340-million the year before. In Canada, it distributes the English Ford line as well as making and selling its own Meteor line. Now it says it's going to build the compact Falcon as well as a "somewhat similar but distinctly Canadian" addition to the Meteors.

Most U. S. auto men think the new compact cars of the Big Three will hurt sales of the English Ford type of import more than the Volkswagen or Renault type. If this proves true, Ford of Canada may profit more from sales of the cars it makes than it loses in cars it merely distributes. That's one reason why Ford of Dearborn may see a dollar invested in Ford of Canada as going further than a dollar invested anywhere else.

• **Terms of Offer**—The parent company is offering shareholders $188 per share in U. S. currency (about $181 in Canadian) for 775,628 nonvoting Class A shares and all outstanding 30,208 voting Class B shares that it doesn't already own. It now has 26.2% of Class A stock, 56.8% of Class B.

U. S. Ford's letter to Ford of Canada shareholders reserves the right to call the whole thing off if fewer than 540,000 shares are tendered. If the deal goes through—at a cost of $151.5-million to the parent company—both classes of stock will be combined in a single class with voting rights.

Ford also says that three "prominent Canadian businessmen" will be added to the board of Canadian Ford.

In New York, Ford of Canada shares are traded on the American Stock Exchange, where prices jumped sharply on news of the offer. Before the announcement, trading was inactive in the range of $144 to $148 for both classes of stock. On Monday, Class A closed at $178; Class B at $182.63.

• **Canadian Reaction**—Ford of Canada has gone through some hard times, but its prospects look so good that some Canadian brokers are advising their clients to think twice about Ford's offer to buy, even at $188 U. S., $181 Canadian.

Last year's earnings per share were $12.70 Canadian, and this year's are estimated at $15 to $18.

However, most brokers recommend acceptance of Ford's bid, except in cases where an investor can afford to hold on for a long-term gain. A few financial editors have hewed to the familiar line that a U. S. company again is trying to deprive Canadians of the opportunity to invest in its Canadian subsidiary. However, there's no question of control in this case. Ford already has 56.8% voting control through its Class B stock.

• **Loopholes**—All of the Big Three have said they would build their compact cars in Canada if they sold them there. These assurances followed Prime Minister John Diefenbaker's statement last week that this should be done (BW—May23'59,p36). Studebaker-Packard Corp. already produces its Lark in Canada, but its plant has been closed for weeks by a strike.

Canada is seen as a strong market for smaller cars, with imports already claiming 30% of the nation's sales. The small cars fit the Canadian terrain, road system, and pocketbook. From November through January, the Lark got more orders than the company got in all of 1958—4,108 to 4,094.

Despite the promise of the market and the assurance of the public statements, the Big Three are believed still to have loopholes for escape from building their compact cars in Canada. According to the best information, none of them has yet passed the point of no return in setting up production.

By Canadian law, at least 65% of the components in each company's total production in Canada must be Canadian-made, rather than merely assembled from U. S. parts. But the Big Three already use an average of 75% Canadian components. So they could presumably use U.S. assemblies for a fairly large trial run of Falcon, Corvair (GM's entry), and Valiant (Chrysler).

EN ROUTE to Dulles' funeral, British Foreign Secy. Selwyn Lloyd, U. S. Secy. of State Herter, and French Foreign Minister Maurice Couve de Murville, (extreme right) are met by Under Secy. Dillon (second from right) at Washington after flight from Geneva.

Geneva Talks Shift To More Hopeful Basis

But U. S. officials say all depends on when Russia decides to clear the way for a summit meeting.

This week the Big Four foreign ministers quit Geneva briefly to attend the funeral of former Secy. of State Dulles in Washington and to meet with Pres. Eisenhower at the White House. The occasion was melancholy, but the need to interrupt the sessions may have been opportune.

During its first two weeks, the Geneva conference followed the pattern of many another fruitless East-West exchange. But Western diplomats now see hope that the Geneva standoff will end after this recess. A shift from public to private sessions is being made, and that also means there is a better chance of getting down to business.

• **Up to Russia**—Even so, there is a feeling in Washington this week that the standoff can end only when the Soviets decide it is time to clear the way to a summit meeting. Almost everything will depend, U. S. officials admit, on how Soviet Foreign Minister Gromyko plays things from now on. About all he needs to do to assure a summit meeting would be to agree on an agenda giving Pres. Eisenhower the assurance that it would be worthwhile to meet with Premier Khrushchev.

Such an agenda would have to include issues that are negotiable—something that isn't true of the package proposals that have been made by both sides at Geneva. Each of these was known in advance to be unacceptable to the other side.

Up to now the key Soviet proposal has hinged on the signing of separate peace treaties with East Germany and West Germany; the West won't accept that. Our counter-proposal has been a stage-by-stage German reunification. That is equally unacceptable to the Soviets—even though we have included an offer to limit and control armaments in Central Europe.

That seems to leave Berlin and a nuclear test ban as the only issues that are negotiable today between East and West.

• **Western Unity**—Meanwhile, the West has a problem of its own at Geneva—how to maintain enough unity so that the Soviets don't win any solid concessions from the West just by granting procedural concessions themselves.

One example: The British seem ready at Geneva actually to start negotiating on Berlin. They want to be sure that Gromyko is willing to put Berlin on the summit agenda in a negotiable form, separate from the Soviet proposal for separate German peace treaties.

• **London's View**—The British believe that sooner or later Khrushchev will force the West to accept a new setup in Berlin, so why not negotiate things out now? As London sees it, the West must insist on keeping garrisons in West Berlin and on free access to the city. But we have to be ready to let the East Germans handle the access controls, and thus to give them de facto recognition. This is the best deal on Berlin that the West can expect to get, according to the British.

• **Other Allies**—The French and West Germans are strongly opposed to this approach. They want to stand pat on Berlin during the Geneva negotiations and accept changes in Berlin only if they are part of an agreement leading toward German reunification.

French and German diplomats argue that if the West sticks by its guns, the Russians won't do a thing in Berlin. And they can point to the fact that Khrushchev's May 27 Berlin deadline passed this week with Gromyko attending Dulles' funeral.

The U. S. attitude seems to fall somewhere between these two extremes. Up to now, Secy. of State Herter's tactics at Geneva have followed the Franco-German line pretty closely—with the British going along.

• **Two Ways to Go**—The new, secret negotiations in Geneva can follow one of two courses, depending entirely on how Gromyko decides to play things:

• The Soviet Foreign Minister might get tired of rejecting the Western package of proposals, might indicate an interest in discussing our specific suggestion for arms control in Europe. He might even offer some new Soviet ideas in this field. At that stage, the West probably would agree to discuss the arms question at a summit conference, or even at several such meetings—counting on Khrushchev to leave the Berlin problem on ice during the arms control talks.

• Or Gromyko could continue to take a hard line at Geneva, rejecting every Western proposal out of hand. In that case, the Western powers (with the French and Germans reluctantly going along), might try to get a new agreement on Berlin alone.

U. S. officials admit that Khrushchev may block the way to either of these approaches. But they are hoping that Geneva will lead to the summit and that the summit will bring at least a temporary relaxation of tension. An accommodation removing the danger of war over Berlin would do that, even though no one expects even the beginnings of an over-all peace settlement with the Russians.

How Much Cash for Air Defense?

Hundreds of millions of dollars' worth of military business hinges on a quarrel over whether money for defense against manned bombers would be better spent on missiles.

Washington is rocking this week with a dispute over whether the nation is wasting the billions being spent to build up a defense system to shoot down manned bombers. The questions: Is the real danger now posed by ocean-spanning ballistic missiles, against which there is no defense? If so, should the air defense money be spent instead on buying more big missiles?

The argument that it should comes from Congress, from generals and admirals, and even from some defense producers. To be sure, the bulk of the continental air defense network is already in place. But there are still outstanding procurement orders to be filled—for giant early-warning radars, anti-aircraft missiles, and interceptor planes—and still some new orders to be placed. So for dozens of defense contractors, the dispute is an urgent one. On its outcome depends hundreds of millions of dollars' worth of military business.

I. Fight on Three Fronts

This week, the controversy flared on these fronts:

- Army officials—acting without authority from the Pentagon's top echelon—lashed out at a Senate committee's order to halt the Army's costly Nike Hercules anti-aircraft missile program. They rapped the Air Force's competing Bomarc missile, which would be kept in production under the committee's order, as an "uncertain" weapon still not operational.
- In testimony before the House Defense Appropriations subcommittee, released this week, the Navy's Deputy Chief of Naval Operations, Vice-Adm. John T. Hayward, lambasted both the Niki Hercules and Bomarc. He said the two missiles would soon be obsolete and proposed that both projects be halted.
- Publication of the House testimony revealed still more Air Force and Navy skepticism over the Army's plea for funds to start production of the Nike Zeus anti-missile missile.

• **Long-Standing Debate**—Behind all the fussing is a serious defense policy issue that has been overshadowed by the high-level debate over limited vs. general wars and the over-all makeup of U.S. retaliatory forces (BW—May16'59, p25).

Many strategists argue that even the best air defense system can provide only marginal protection for the U.S. They contend that a stronger deterrent to enemy aggression should be built by producing more big missiles, bombers, and other retaliatory armament.

The Pentagon's current annual bill for continental air defense runs to some $5.5-billion, according to the critics. Close to $4-billion of this sum goes for capital costs—procurement of early warning radars, interceptor planes, and anti-aircraft missiles and development of anti-missile missiles, advanced warning systems, and new aircraft. The remaining funds are earmarked for operation of the continental air defense system. As the program shapes up now, the operating costs will almost double over the next few years.

By comparison, the budget for the Strategic Air Command totals roughly $8-billion.

• **Trimming Already**—Actually, the Defense Dept. is already tapering off expenditures for continental air defense. For the first time in more than a decade, the Air Force will buy no fighter-interceptor planes during fiscal 1960. The new budget also shows a $390-million drop in proposed new orders for the Nike Hercules, Bomarc, and Hawk surface-to-air missiles. But total buying plans for the three still amount to about $710-million.

"Of course," says one top-level official, "there's an infinite requirement for air defense. We can spend any amount, but we'll never have complete protection. Each increment will give us a smaller return. We could double our outlays, but we won't get double the protection. There is a point of diminishing return."

So far, the Pentagon's official line is that the manned bomber, not the ballistic missile, will be the major offensive threat to this country for the next two years at least.

II. Curb on Future Spending

The bulk of anti-aircraft defenses are already in place. In its recent order on the Nike Hercules, the Senate Armed Services Committee took steps to prevent further spending on the program.

In approving the military construction authorization bill for next year, the committee tied up $50-million appropriated last year (but still to be contracted out by the Army) for construction of 25 Hercules sites around SAC bases in the continental U.S. and facilities for eight missile batteries in Hawaii. It also trimmed $17.3-million from a new request, leaving only $5.1-million for the Army to complete work already under way on Hercules bases. At the same time, it approved authority for the Air Force to build five new Bomarc sites—bringing total plans to 24 installations.

The Defense Dept. has long argued that the Nike Hercules and Bomarc are not competitive missiles. The Hercules (range from 50 to 100 miles), they say, is designed for close-in or "point" defense of major target cities and the Bomarc (150 to 400 miles) for so-called "area" or far-out defense.

Last spring, however, the services presented the committee with plans for Bomarc and Nike Hercules bases showing considerable duplication of coverage. Most notably, the plans showed duplicate installation around inland SAC bomber bases.

III. Earlier Hassles

The stress on anti-aircraft missile bases in the U.S. heartland has long angered military strategists such as Adm. Arthur Radford, former chairman of the Joint Chiefs of Staff, who is back on temporary duty at the Pentagon. They consider a peripheral defense network—one set up on the seacoasts and near the Arctic to intercept the enemy far from continental U.S. targets—as the only practical system. They believe the fall-out from the nuclear-armed Bomarc and Nike Hercules missiles could be almost as dangerous as the enemy's own explosives. And they worry over the risk of knocking down U.S. bombers taking off or coming in at SAC bases.

So the committee last year combined the Army's Nike Hercules and Air Force's Bomarc construction budgets, slashed the total by 20%, and assigned the combined budget directly to the Secretary of Defense—directing him to choose between the two missiles.

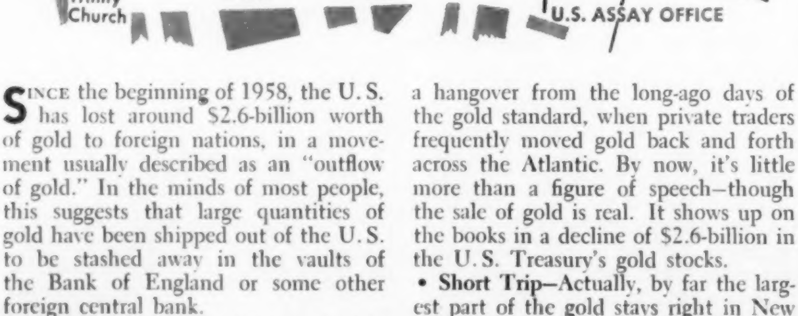
The Pentagon, however, continued plans for the two missiles. And all the while, Army and Air Force partisans continued to snipe at the merits of their rival missiles.

• **Drive on Duplication**—All of this led up to the committee's latest action on the Nike Hercules and a new squeeze on McElroy to weed out duplication through an up-to-date master plan.

Washington insiders believe such a plan will wash out any new Nike Hercules bases in this country and emphasize the installation of Bomarc units in coastal areas. Production plans for the Bomarc may also be trimmed back.

Foreign nation buys gold from U. S. Treasury's Assay Office . . . has it trucked to Federal Reserve Bank . . .

The U.S. Has Been Losing Gold,

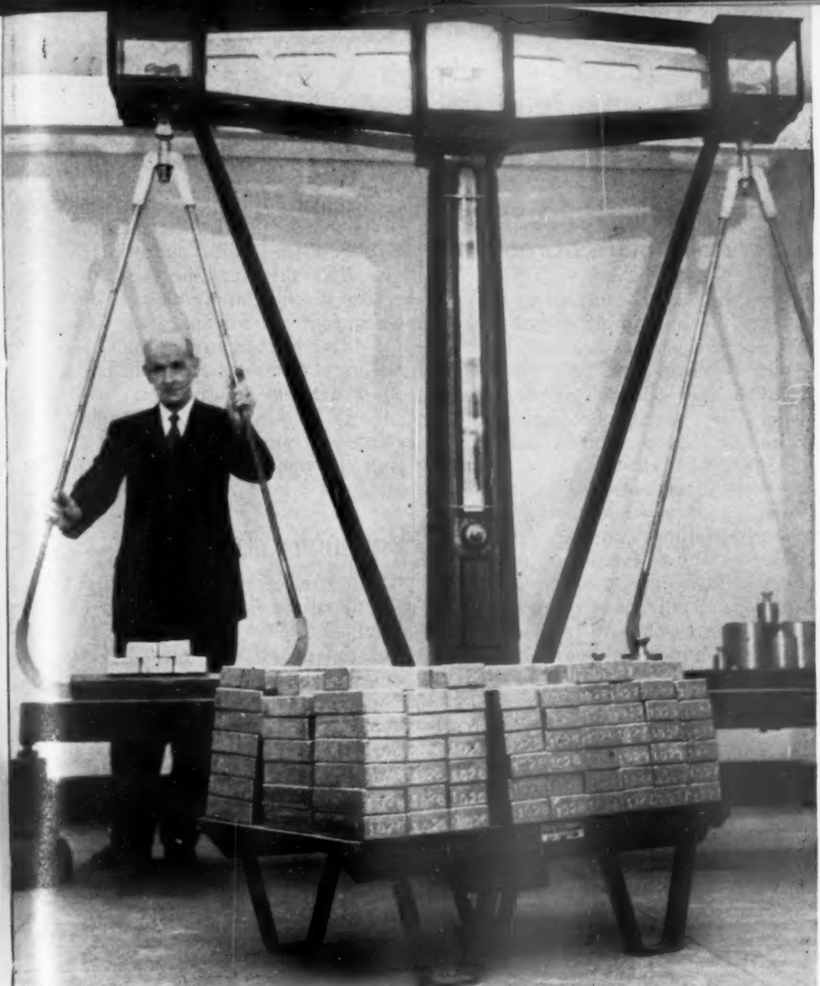


Since the beginning of 1958, the U. S. has lost around $2.6-billion worth of gold to foreign nations, in a movement usually described as an "outflow of gold." In the minds of most people, this suggests that large quantities of gold have been shipped out of the U. S. to be stashed away in the vaults of the Bank of England or some other foreign central bank.

But the "outflow" phrase is largely a hangover from the long-ago days of the gold standard, when private traders frequently moved gold back and forth across the Atlantic. By now, it's little more than a figure of speech—though the sale of gold is real. It shows up on the books in a decline of $2.6-billion in the U. S. Treasury's gold stocks.

• **Short Trip**—Actually, by far the largest part of the gold stays right in New York. It never leaves American shores—or even the custody of the U. S. It simply moves six or seven blocks across downtown Manhattan, from the U. S. Assay Office on South Street to the Federal Reserve Bank of New York at 33 Liberty St. (map and pictures). The Assay Office is one of the chief storehouses for U. S. gold, and the vaults of the New York Fed, in bedrock some 80 ft. below street level, are a favored repository for foreign-owned bullion.

At the New York Fed, the gold is earmarked for the account of some foreign country and then deposited in the individual cage or cages maintained for that country. As U. S. gold stocks have declined over the past 16 months or so, the total value of this earmarked gold has risen. It now has reached approximately $9-billion—or just about half the total owned by non-Communist countries other than the U. S., plus international bodies such as the International Monetary Fund. This compares with the U. S.' own gold



where it is weighed and earmarked for country's account . . . and placed in individual cage for safekeeping.

But It Never Leaves New York

stock of about $20.2-billion—of which about $12.5-billion is held at Ft. Knox, with the rest at the New York Assay Office, the mints in Philadelphia, Denver, and San Francisco, and a special vault in Seattle.

• **Safekeeping**—To officials of the New York Federal Reserve, it seems quite natural that foreign nations should use their Liberty Street vaults to store gold earned in transactions with the U.S. In 1935, the New York Fed held only $9-million in earmarked gold, but ever since about 1937, with the threat of World War II in Europe, the central banks of most non-Communist countries have been keeping a good share of their gold in New York. Today, there's not much point in paying shipping charges to transfer gold abroad, especially when New York may still be safer.

• **Transfer Process**—Gold is transferred in New York by strictly old-fashioned methods. Here, in brief, is what happens when there's a so-called outflow of gold from the U.S.

A foreign country that has been accumulating dollar balances at the New York Fed asks the bank to buy, say, $10-million worth of gold and to debit its dollar account for that amount. The Fed buys the gold from the U.S. Assay Office for $35 per oz.—the official U.S. selling price—plus an 8¾¢ per oz. handling charge. The amount of the sale is credited to the books of the U.S. Treasury. Then the gold is moved, with the utmost security precautions, to the Fed's vaults at 33 Liberty St. Usually, it's in the form of bars weighing about 28 lb. and worth about $14,000 each. Each bar differs slightly from the next in weight and assay.

When the gold bars reach the subterranean vaults, the weight listed by the Assay Office is doublechecked on a massive scale that measures to 1/100th of an ounce. Then the bars are put away in one or more of the vaults' 110 compartments, according to what foreign country has requested the transaction. The largest compartment holds 500 tons of gold—or about $500-million worth.

• **Settling Up**—Gold is shifted from compartment to compartment in the vaults far more often than it is moved from the Assay Office into the Fed. For example, the European Payments Union made its monthly settlements by shifting bars from the compartment of one EPU member to that of another. And Britain will make its $162-million gold contribution to the International Monetary Fund—designed to enlarge IMF resources—simply by moving gold in the Fed's vaults.

The only strange thing about the physical transfer of gold in downtown New York is that anybody should take the trouble to move the stuff at all. It would be simpler, as Fed officials admit privately, if there were a single pool of gold in New York and transfers were only a matter of bookkeeping. If such a pool existed, it would presumably include almost all the $9-billion in earmarked foreign gold.

What to Do About the Oil Glut

Not much, according to a consensus. Both politics and economics put pressure on producing more and more abroad.

The big question—"Where is the oil industry headed?"—isn't on the agenda of next week's Fifth World Petroleum Congress. But it's sure to get a working-over—along corridors and in hotel rooms—by the 5,000 oilmen (1,500 of them foreigners) attending the big meeting in New York's Coliseum.

The pivotal problem now facing the free world's oil industry is an oil glut. Supplies are way out of line with demand.

More important, for the long term, is the changing structure of the oil industry here and abroad. "It no longer has its old, built-in stability," says one top executive.

What he means is that the big international companies—from Standard Oil Co. (N. J.) and Royal Dutch/Shell on down—no longer run the whole show in producing, refining, and marketing oil. The days are gone when they could deal free and easy with Arab sheiks and Venezuelan oil czars and sell without much trouble in any markets they liked.

"It's an industry of decreasing concentration," says an oil economist.

• **Signs of Change**—All sorts of recent developments have altered the pattern of operations, including:

• The upsurge in oil output abroad by both U.S. and West European companies that formerly stuck closely to their home bases.

• The gradual rise in Soviet-bloc oil exports to Western markets.

• The campaign by producing countries to alter the traditional 50-50 formula for sharing oil profits.

• The U.S. government's precedent-setting decision to slap quotas on oil imports (BW—May9'59,p28).

• **Dark View**—Buffeted by these developments, the major companies now are up against what one economist calls "chaotic conditions." They talk of "depressed prices" and "lower earnings levels" for some years ahead.

The picture isn't entirely gloomy. Some oilmen feel simply that the industry is "proving once again its basic competitiveness." Some also predict that oil supplies may get back in balance with demand within two to three years (though the pessimists see a longer pull ahead).

I. Too Much Oil

What most oilmen are banking on is an annual growth in oil consumption of between 4% and 5% here and around 8% abroad.

Still, for the major companies, the problem today is not simply over-abundance of oil. It is also—as one executive neatly puts it—"over-potential."

Spurred by the Suez oil shortages, the majors have been ordering new tankers bigger than any afloat before (though cheaper to operate). At the moment, there is far more tanker capacity available than is needed.

The oil-consuming countries, from Thailand to West Germany, have encouraged the majors to build local refineries all over the map. The consuming countries want to buy only crude, to limit imports of more costly refined oil products.

Beyond that, the oil-producing countries such as Kuwait and Venezuela keep pressing the oil companies to produce at maximum output. The governments, dependent on oil for income, want to exploit their fast-growing reserves to bring the highest profits.

• **Temporary or Not?**—Of course, the recession aggravated the problem of oversupplies. "The industry," says an executive, "failed to realize that, despite Suez shortages, there was a basic flattening out of oil demand."

In any case, the overabundance of oil does not seem to be temporary. Here's the way the head of one major company explains it:

• Within a few years, Algeria may be supplying all of France's oil and natural gas requirements. Libyan oil is beginning to come in fast. Any sizable increase in Saharan output will add to the oversupply. It also will lessen the need for tankers to haul Mideast crude.

• New U.S. and foreign operators in the Middle East and Venezuela need to keep producing all they can. They may have to keep on "dumping" oil on markets at discounts off the so-called posted prices. Many of these independents, exploring and producing on borrowed money, have "creditors breathing down their necks."

• **Hard to Move**—All of this means trouble for the majors. To complicate matters, the majors—though strong financially and integrated in their operations—lack flexibility to some extent.

"The minute we make a move in Caracas," says one oilman, "the oil experts in Djakarta know about it—and study it." Thus, while having to adjust to new conditions, the majors realize that a "special deal" in one country may have repercussions in othe countries where they operate.

By contrast, before World War II, the majors dominated the free world's oil industry. Already, they held concessions in the Middle East and Venezuela.

Right after the war, the big companies rode through an oil boom. They pushed output in foreign areas. By 1949, Western Europe was getting 60% of its oil imports from the Middle East, compared with a prewar 20%. In 1948, the U.S., once the world's largest oil exporter, became a net importer of oil. And the majors far and away led the industry.

II. Nationalist Trouble

In 1951, trouble started. Iran arbitrarily nationalized the vast holdings of Anglo-Iranian Oil Co. (now British Petroleum), one of the seven majors. This was the first real sign of violent nationalism—directed against a Western oil company—in a major Mideast country.

By 1954, Iran recognized that without marketing outlets, available primarily through a major company such as BP, it could not sell oil. It handed back its oil development to a new consortium of majors. Yet the Iranian incident—seen in perspective—was a warning signal. It pointed up the slow erosion of the major's earlier, uncontested position.

Two years later, as part of his drive for Arab unity, Egypt's Pres. Nasser blocked the Suez Canal. The majors learned from this crisis that they faced long-term political disturbances in the Middle East.

• **More Competition**—Along with political troubles, the majors were running into competition from newcomers. Beginning around 1955, more than 200 U.S. independents—inexperienced in foreign operations—began flocking overseas. Their main incentive was the fast-rising cost of finding oil domestically.

With them went Italy's ENI, the state-owned oil company headed by Enrico Mattei. A skillful, ambitious executive, Mattei wanted to cut in on the majors' near-monopoly of Mideast oil concessions. He made the crucial break with tradition by signing a 75-25 deal with Iran. Then, Standard Oil Co. (Indiana) followed suit with a special deal with Iran.

On top of this, the Soviet Union last year began edging into western oil markets. In Latin America, it negotiated an agreement to supply oil to Argentina. In the Middle East, following the overthrow of the old regime in Iraq, Moscow backed Communist moves to put the new Baghdad government under their wing. Coupled with that were

Are costs what you expected?

Are costs stable without drastic change from year to year?

Do coverages fit employee needs?

Are benefits paid consistent with medical and hospital costs in area?

Are employees satisfied with plan?

Are claims paid promptly?

Are questionable claims investigated to avoid extra costs for you?

Does your insurance man keep you posted on new A & H coverages?

Does your insurance company account yearly for premium dollars spent?

Does your present carrier have an "experience rating" plan which applies to your Group?

How does your Group Accident & Health Plan measure up?

Anything short of ten "yes" answers means you could profit from a talk with the friendly AM man!

The AM man can "custom-fit" a Group Accident and Health Insurance Plan to the needs of your employees—providing broad coverages at low cost. Under AM's "experience rating" provision, your premiums may well be reduced, helping you stabilize costs from year to year. You and your employees will find claims are handled promptly, thoroughly, fairly.

A custom-fitted Group Accident & Health Plan will lift employee morale, lower insurance costs—as many AM policyholders can verify. Ask your AM man for details.

He can advise you on all your liability and insurance needs! American Mutual, Dept. BW-7, Wakefield, Mass.

American Mutual

LIABILITY INSURANCE COMPANY

"The First American Liability Insurance Company"... a leading writer of Workmen's Compensation, all forms of Liability, Crime, Accident and Health Insurance.

Soviet threats of selling increasing amounts of oil to the West.

Right now, everybody with a stake in the oil industry is jockeying for positions of strength. And the majors seem to be caught in the middle of these maneuvers.

III. Majors in the Middle

Take the producing countries. The ones in the Middle East are trying to get together on a unified policy toward oil companies. (They failed to make much headway in doing this at the recent Arab Oil Congress in Cairo.) Venezuela, also, is trying to join forces with Mideast producers to stabilize output and prices.

Worst of all—as the majors see it—the U.S. has set quotas reducing imports by 36% to protect domestic producers (BW—Mar.21'59,p30). It also has brought Canada into the new arrangement, creating—says one economist—"a North American protectionist market for oil."

The majors say that while supposedly protecting domestic oil for national defense, the quotas simply encourage U.S. producers to use up reserves faster than before. One example of this—as Chase Manhattan Bank's petroleum department notes—was the industry's sudden spurt in output since January, which has led to the same oversupply problem it faced last year.

As for Western Europe, the tendency also is to go off in a corner—into a regional grouping. Spurred by the six-nation Common Market, it may gradually develop a unified policy on oil.

• **No Easy Future**—In any case, the majors won't have an easy time of it from now on. With oil prices declining, Mideast governments have all the more reason to try to increase their share of crude profits.

But there are factors that may help ease the present troubles. For one thing, the overabundance of oil gives the majors a weapon in negotiating with foreign countries. The companies no longer depend so heavily on a single country or region for oil.

"Overabundance and diversification," says Walter J. Levy, well-known oil consultant, "may well put some balance back into the picture. No party—consumer, producer, or company—is in a strong enough bargaining position to ignore the fact of interdependence."

Beyond this, the downturn in oil prices may gradually slow the whole oil industry's expansion worldwide. "In a buyers' market, there just won't be as much money generated to spend on new production and refining," says a top executive. "In the long run, we'll probably just muddle through—with supplies gradually brought more in line with demand."

New Attack on AT&T Decree

Celler report blasts 1956 consent decree signed by AT&T and government as "devoid of merit," urges stricter procedures in negotiating settlement of antitrust cases.

Back in 1949, the Truman Administration filed one of the most ambitious antitrust cases on record. American Telephone & Telegraph Co., it charged, was conspiring with its wholly owned manufacturing subsidiary, Western Electric Co., to monopolize the manufacture and sale of telephones and telephone equipment. Primary purpose of the action, said Atty. Gen. Tom Clark, was to force a splitoff of Western as sole supplier for the Bell operating telephone companies.

In 1956, under a Republican Administration, Atty. Gen. Herbert Brownell settled the case out of court.

• **New Attack**—Ever since, the Democrats have refused to let the matter rest. This week, in a report billed as a study of the Justice Dept.'s consent decrees program, they made another bitter attack on the Republican settlement. And, in addition, they charged Justice with laxity in enforcing another important consent decree signed in 1941 with 52 oil pipelines and 20 oil companies.

Despite its critical tone, the report does not recommend doing away with consent decrees. But, Justice Dept. lawyers in present or future consent decree negotiations may be more testy.

The report was issued by Chmn. Emanuel Celler's House Antitrust Subcommittee. Three Republican members lost no time in branding it as "obvious bias" and an attempt to "smear by innuendo, distortion, and inference." Two Democratic members, who were out of Washington, did not sign the report.

• **Behind-the-Scene Moves**—According to the subcommittee, the AT&T decree was "devoid of merit" since it provided for no splitoff of Western. Brownell gets principal blame. The report relates that the Attorney General and T. Brooke Price, then AT&T's general counsel, met to discuss the case in June, 1953 at Brownell's cottage at the Greenbrier Hotel, White Sulphur Springs, W. Va.

At this meeting, according to Price's notes, Brownell suggested that AT&T "could readily find practices that [it] might agree to have enjoined with no real injury to [its] business" and that if AT&T "tried" it "certainly could find things of that sort that could be used as a basis for a consent decree."

Up until this time, AT&T had been trying to postpone trial of the case, and had not suggested consent decree negotiations. From this point on, says the report, AT&T knew it could get out of the case without divestment or litigation.

This was obvious, says the report, in view of another statement by Brownell at White Sulphur Springs, recorded by Price, that it was important to get the case disposed of and that "the President would understand this and that if a settlement were worked out I could get the President's approval in five minutes."

At midweek, Brownell had issued no statement on the Celler report.

• **Retort**—But AT&T's Pres. Frederick R. Kappel denounced it as "a biased and slanted document which ignores the real public interest . . . ."

Kappel attacked the report's charge that one of the consent decree's main provisions—making patents available to all with full "technical knowledge"—wasn't effective. He also said divestiture of Western would have caused higher phone rates.

• **Pipeline Decree**—In regard to the oil pipeline consent decree, the Celler report charges that Justice Dept. antitrusters, in effect, looked the other way while the pipelines violated the 1941 agreement. The decree was intended to restrict dividends paid by the pipelines to their shipper-owners to 7% of the value of the pipelines. The original antitrust suit charged dividend payments amounted to illegal rebates and discriminated against other shippers.

Only after the Celler committee announced an investigation of the pipeline decree in 1957, the report points out, did the Justice Dept. charge the defendants in the case with violations.

• **Recommendations**—Briefly, these are the major conclusions and recommendations made in the Celler report:

• The Justice Dept. should reopen the AT&T case.

• A broad re-examination of all phases of federal regulation of the oil pipeline industry should be made.

• Congress should consider a law forbidding any dividend payments by pipelines to shipper-owners.

• Too many consent decrees are watering down the antitrust program by depriving private parties of the use of litigated cases as ammunition for triple damage suits.

• If the Justice Dept. fails to revamp its own resources, Congress should enact laws to require a waiting period to allow interested parties (competitors) to come into court to object to a consent decree's terms.

In Business

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Steel Negotiators Take Recess; No Progress Yet on Contract

Steel contract negotiations recessed this midweek until June 2—a day just four weeks before the expiration of agreements covering half a million basic steel workers. **Negotiators said cryptically, "We have continued our discussions and we will continue our discussions." For the public, that was the news of the week on steel bargaining.**

With negotiations at midpoint now, and concern building up about the possibilities of a strike (page 25), there is still a wide gap between steel management and labor. There are no signs of progress in narrowing this gap.

The key issues appear to be union demands for:

A "substantial" wage increase—possibly 10¢ or more.

A noncontributory insurance program; now, steel workers pay part of the insurance costs.

A plan to cut the workweek in plants to an average 38 hours by giving workers a 32-hour week at 40-hour pay every fourth week; USW is serious about this as a breakthrough for a shorter workweek, a spreading of jobs.

Meanwhile, there's more talk of a possible extension of the steel contract—but **whether there will be one may depend on whether the industry will agree to make any late settlement retroactive to June 30.** In 1956, the industry refused to accept retroactivity.

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Radiation Effects on Big Plane Parts Tested in Lockheed's Georgia Lab

Lockheed's Georgia Nuclear Laboratories at Dawsonville are being opened for the testing of the effects of radiation on aircraft parts and systems. The $14-million lab includes a reactor built by General Electric.

The lab, **built under an Air Force contract,** is being made available for tests to government agencies and their contractors. Some 50 inquiries have been received. The lab is designed for testing the effects of radiation on really sizable parts such as wings and entire systems.

The reactor, normally kept submerged in water, is raised into a test building into which parts can be run on railroad flatcars. Then the exposed parts are hauled two miles away, for remote control examination.

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Ohio Oil Co. Acquires Aurora, Michigan Refiner and Marketer

Following the trend in the petroleum industry, Ohio Oil Co., a large producer of crude, this week acquired Aurora Gasoline Co., Michigan's largest independent refiner and marketer. Ohio Oil exchanged 875,000 shares of its stock for all the outstanding shares of Aurora; on an average price of $44.75 per share, that figures to $39.2-million.

Aurora has been buying 60% of its crude from Ohio Oil, and markets through Speedway Petroleum Corp., which has 600 stations—nearly all in Michigan, with a few in Indiana and Ohio. Ohio Oil markets through 2,700 Marathon stations in Ohio, Illinois, Indiana, Kentucky, and Wisconsin, plus a few in Michigan.

Ohio Oil, once part of the old Standard Oil empire, has interests in every important oil field in the U.S. and Canada, as well as Venezuela and Libya. Current production is 110,000 bbl. per day, from 15,000 active wells.

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Four European Airlines to Pool Planes and Income on North Atlantic

Four European airlines this week agreed to "common interest" pooling of their planes, schedules, servicing, sales organization, and income on the North Atlantic run.

The group, called Airunion, will split income with **Air France, West Germany's Lufthansa, Alitalia, and Belgium's Sabena on the basis of passenger-miles.**

Each line will retain its identity, but the pooling will extend to management policy and spending for equipment.

The partners in Airunion expect various advantages:

• Economies in advertising, maintenance and ground costs, and equipment especially through elimination of duplicating flights.

• A position of greater strength in negotiating for additional stops in the U.S.

• A chance to increase their share of North Atlantic passengers, by competitive scheduling aimed straight at such carriers as Pan American World Airways. Last year the four had an estimated 19.3% of the traffic, compared with 23% for Pan Am.

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Valiant and Plymouth Franchises Split Between Two Dealer Groups

Chrysler Corp. this week ended its dealers' suspense over who is to sell the Valiant, the new smaller car (page 27). The answer: Everybody wins a little.

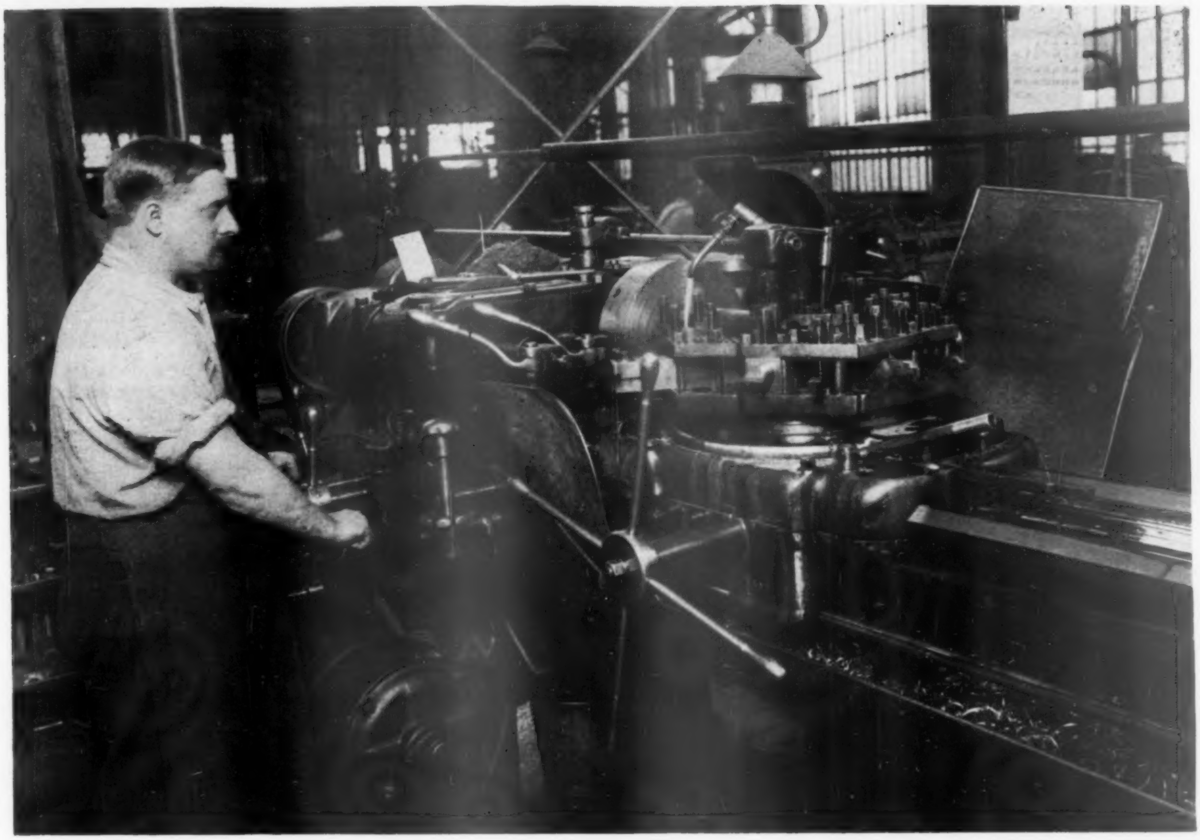
Chrysler now lines its dealers up like this:

• One group selling Chrysler, Imperial, Plymouth, and Valiant.

• Another selling De Soto, Plymouth, Valiant. This group would be the major retailers of the Plymouth.

• A third selling Dodge, Dodge Trucks, Simca (the French-built car), and a new smaller Dodge to be built on a 1960 Plymouth 118-in. wheelbase (the Valiant is on a 108-in. wheelbase).

In this reshuffle, Chrysler has restored divisional sales responsibilities that it took away last year. And it has merged De Soto into the Plymouth division. Other divisions are Dodge and Chrysler-Imperial.



WASHINGTON OUTLOOK

WASHINGTON
BUREAU
MAY 30, 1959

A BUSINESS WEEK
SERVICE

The Treasury wants more freedom to handle government financing.

The implication is higher interest rates for the foreseeable future—higher rates on borrowed money, whether borrowed by government, business, or individuals for their own uses.

The Treasury feels cramped. There's no certainty that the budget for the new fiscal year will be balanced. New money may have to be raised. And there's the continuing problem of refinancing the huge national debt. In the market, the Treasury is handicapped by Congress-set ceilings on what it can pay for various types of borrowing. A three-pronged program is shaping up.

The Treasury wants the debt ceiling raised (page 28). This Congress will do. In fact, the national debt today is over $285-billion, well in excess of the $283-billion statutory limit. The excess is permitted under an extra $5-billion voted by Congress last year, which expires June 30.

The Treasury would also like to be rid of the interest ceiling on bonds. As the law now stands, the top price the Treasury can pay is 4¼% on borrowings that run more than five years. A look at current bond prices is enough to show that this ceiling is too low to permit floating a new bond issue.

A higher rate on savings bonds would have to go along with any increase in the interest ceiling, the Treasury recognizes. Many Congressmen have been urging a higher return on these low-denomination bonds, largely sold through payroll deduction plans.

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All three are ticklish, politically. The debt ceiling must be faced. There's no way the Treasury can get around this. But on the other two, it can move and is moving more slowly. Treasury Secy. Anderson is feeling out the leaders in the Democratic-controlled House and Senate on whether they will go along with higher costs for servicing the debt. He can't afford to run into a defeat led by the so-called low-interest, easy-money bloc in Congress.

The prospect is that Anderson will make his moves this session.

Next year is a Presidential election year and, unless the boom breaks in the meantime—which is not expected—high interest rates probably will become a hot political issue.

Leading Democrats are friendly to Anderson and his problem. There are many who will back him now but who might not be able to do it next year. Even so, the issue will touch off a loud fight.

You can anticipate where the opposition will come from.

In the House, Rep. Wright Patman (D-Tex.), a member of the Banking and Joint Economic Committees, will fight against anything that looks like a rise in government interest rates.

In the Senate, Robert S. Kerr (D-Okla.), an influential member of the Finance Committee, will take a similar stand.

There will be opposition from states and municipalities, too. They are big borrowers today and will oppose any legislation that might raise the interest base of the nation—the government bond market.

WASHINGTON BUREAU
MAY 30, 1959

TVA will win its financing fight in Congress. But there will be strings attached, where expansion is involved.

The public power agency will be allowed to sell bonds to raise money to meet growing power needs in the area.

But there'll be a major limitation that proceeds from bond sales cannot be used to extend TVA's field. They can only be used to meet demands within the area that TVA now serves.

No TVA for the Columbia Valley will be voted at this time. Support for this type of Valley operation comes from public power advocates in the Pacific Northwest. There is a bill in the Senate, by Neuberger of Oregon, to replace the Bonneville administration by a Columbia River Development Corp. But it lacks drive to get through at this session.

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Veterans' pension reform is in danger. Congress can't pass the Eisenhower plan without, at least, acquiesence by the two big veteran organizations—the American Legion and the Veterans of Foreign Wars. And both are balking at the Administration approach, which would allow only veterans in actual financial need to get on pension rolls in the future.

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New headlines on "influence peddling" are in the making.

Watch for several regulatory agencies to go on the griddle before the House committee that forced Sherman Adams' and Mack's resignations.

Agencies facing the fire: Civil Aeronautics Board, Interstate Commerce Commission, Federal Power Commission, and Federal Trade Commission.

In charge of the job: the House Legislative Oversight Committee. It has been reorganized in the past several weeks and is pulling additional information into its files. One top member states the committee's job this way: "How does Congress regulate the regulators?"

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A little insight on inter-service bickering: The Navy is ready to train its guns on the Air Force over the old issue of "service missions." The Navy has spent a great deal of time and money to get into the missile field. It thinks it has it made with the highly touted Polaris rocket, to be launched from nuclear-powered submarines. Now the Air Force is arguing that these subs and the Strategic Air Command should function under common control. The Navy wants no part of this.

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Eisenhower will veto the Housing bill, unless the conference committee finds some way to cut the budget charges.

He wants the extra insurance authority provided for FHA—the Federal Housing Administration, which puts government credit behind home mortgages.

But the President is against more money for public housing.

He also opposes the big urban renewal program proposed by the Democrats. And he opposes the extra spending for college housing.

Eisenhower can make a veto stick on this issue. And odds are that his margin would be greater than on the recently vetoed REA bill.

Mixing Business With Politics

More and more businessmen —often under their companies' urging—are becoming active.

The drive to get businessmen into practical politics is gathering momentum. Last week two events pointed up the movement, which is collecting opponents as well as adherents along the way:

• Some 200 executives at an American Management Assn. meeting in New York (pictures) heard arguments pro and con about (1) whether businessmen as individuals have either the time or the skill to contribute effectively to party politics and (2) whether corporations, as such, should take a stand on public issues.

• American Can Co. announced its intention to present an official corporate view on questions of government policy.

There are lots of other manifestations of the businessman's urge to make his voice heard on political questions. More and more corporations, for instance, are sponsoring courses in grassroots political action for management, professional, and supervisory personnel. More than 10,000 representatives of big and little business have attended—or soon will attend—such sessions.

Some companies are "speaking out" to managers, employees, stockholders, and the public on political issues. A few, like Canco, are putting the corporation name behind what they are saying.

• **Politicos Visit**—Some companies, too, are inviting politicians to visit their plants—either to meet the executives, as at Canco, or to address the employees, as at General Electric Co.'s Lynn (Mass.) plant last week. Some are planning to circulate copies of Congressional voting records—Gulf Oil Corp., for example, to its stockholders and Ford Motor Co. to its managers and dealers.

A number of companies now have executives with such titles as director of public or civic affairs to coordinate political activities. Among them are Continental Oil Co., Monsanto Chemical Co., Ford, and GE.

All these "political action" programs reflect the growing feeling of many businessmen (BW—Oct.11'58,p125)

EXECUTIVES at American Management Assn. conference discuss the corporation's role in public affairs.

SPEAKERS at AMA session included James C. Worthy of Sears, Roebuck (left) and Willard V. Merrihue of GE's community and business relations service.

NATIONAL CHAIRMEN of two parties, Democratic Paul Butler (left) and Republican Thruston Morton, tell businessmen participation is welcome.

". . . as one executive puts it: 'Lobbying is passe. It's the voters who have to be influenced' . . ."

STORY starts on p. 45

that lobbying, testifying before Congressional committees, and other traditional methods of influencing legislation have not been effective in advancing the interests or views of the business community. As one executive puts it: "Lobbying is passé. It's the voters who have to be influenced."

At the AMA conference last week there was unqualified endorsement for the idea that both business and the public would benefit if more businessmen were individually active in politics. On the extent to which the corporation itself should enter the political arena, there was a good deal less unanimity.

• **Canco's Approach**—The program announced last week by Canco is both corporate and individual. The corporation will take official stands in such areas of public policy as a balanced budget, government controls over business, and labor legislation. Positions on issues in these areas are worked out by four standing committees. Once approved by the management committee, they become official Canco policy and are communicated to management personnel and employees. So far Canco has issued about half a dozen "governmental relations letters," on such questions as the Kennedy labor bill and amendments to it.

However, the application of these corporate policies is on an individual basis. Canco has appointed 153 of its managers in plant and offices throughout the country to serve as the company's official spokesmen to their own senators and representatives. These men are asked to get acquainted with their legislators, invite them to their plants and offices, and discuss topics of "mutual interest." They also are asked to study the company's official views on legislation and the reasoning behind them; if they agree with those views they are to communicate them to the legislators.

Canco hopes that others in management and eventually all Canco employees will also support its stands in conversations with friends and neighbors and in letters to their congressmen.

• **Voluntary Action**—All this individual action is voluntary, Canco emphasizes. No manager or employee will be required to back up corporation positions with which he disagrees. Nor will anyone's career suffer for such disagreement, says Canco.

Canco, of course, is not the first to stick its corporate nose into politics. Armco Steel Corp. is also taking stands on such issues as "right-to-work" laws and budget balancing; it will report those positions to employees through foremen and employee publications. GE stirred up controversy last year by its support of right-to-work legislation in California. Ford keeps its managers informed of political trends affecting company operations.

• **Doubters**—Both the propriety and the desirability of such corporate embroilment in political issues were questioned by some of the speakers at the AMA conference. Democratic National Chmn. Paul M. Butler expressed doubt that corporations should adopt positions—as corporations—on public issues without taking votes of their stockholders. On this point, Republican Chmn. Thruston B. Morton, Kentucky senator, said businessmen would be more effective as citizens than as spokesmen for business. Arnold H. Maremont, chairman of the board of Allied Paper Corp. and president of Maremont Automotive Products, Inc., argued that the corporation is a legal, not a personal, entity and has no right to political opinions.

Furthermore, Maremont warned, there is risk that corporate political action will antagonize more people than it wins. The public has reacted against such activity in the past, said James C. Worthy, Sears, Roebuck & Co. vice-president in charge of public relations, and may continue to do so unless business begins to be "for things rather than everlastingly against," unless it takes "more initiative in devising measures for dealing with urgent public problems."

William C. Newberg, executive vice-president of Chrysler Corp., also recommended that management "accentuate the positive." He cited highway construction as an example of something that his company had found to support both in its own and in the public interest.

• **Back to Grass Roots**—The place to start influencing legislation, many companies have decided, is at the grass roots. That's why so many of them have dropped their former indifference or opposition to individual political activity by their executives.

"Where we used to say that we had no objection to their being politically active, provided it did not interfere with their work with the company, we now say that we wish them to be politically active even though it may interfere with their work," Ross Nichols, vice-president, Weston Instruments Div., Daystrom, Inc., reported at the AMA meeting.

Some companies, like du Pont, have no formal programs for encouraging executives and employees to get their feet wet in politics, but their attitude toward such activity is generally more cordial. Many, like Texas Instruments, Inc., and Harvey Aluminum, have followed the example of Aerojet-General Corp. in setting up machinery to facilitate employee financial contributions to both parties. Many plan to stage register-and-vote campaigns among their employees next year.

• **Political Seminars**—Among the most popular devices for encouraging individual political action is the "practical politics" seminar, designed to motivate and train the participant to become an active member of the party of his choice at the precinct level.

The U.S. Chamber of Commerce, which announced its packaged course in grass-roots politics only four months ago (BW—Feb.14'59,p154), estimates that more than 7,000 individuals are now or soon will be enrolled under the sponsorship of corporations, local chambers, and trade associations. Kits for the program are being ordered at the rate of 1,000 a week. Small banks have shown particular interest. The National Assn. of Manufacturers' Citizen at Work program, brought out last fall, has some 2,000 participants, NAM says.

About 1,000 students have graduated from each of the two pioneer practical politics training programs—those of the Effective Citizens Organization, a private group with corporate sponsors, and of the Manufacturers Assn. of Syracuse. GE is active in both of these latter groups, but it also has its own program, with about 800 graduates.

Republic Steel Corp. got the University of Chicago to set up such a course in Cleveland earlier this year. Public Affairs Counselors, a New York consulting firm, has developed programs for such concerns as Allen-Bradley Co. and A. O. Smith Corp., and just last week started classes at Oxford Paper Co. The Texas Manufacturers Assn., the Associated Industries of Kentucky, and a volunteer group of businessmen in New Jersey are among the others running such seminars.

• **Two-Party System**—The assumption, of course, is that the new political activists coming out of these courses will represent the "business viewpoint" within their political parties. On the question of which party it will be, all the companies represented on the AMA platform claimed a strictly hands-off attitude. However, there was some tendency to plug the Democratic Party, apparently on the theory that it needs the business viewpoint more than the

Republican Party does. Chmn. Butler cheerfully extended an invitation to join "the majority party of the nation," and Sen. Morton asserted that it would "be disastrous for the nation and for the party itself if any single economic group were to win unchallenged control of the Republican Party." Whichever party gets the benefit, there may be indeed a lot more businessmen out ringing doorbells and stuffing envelopes in 1960 than in past election years.

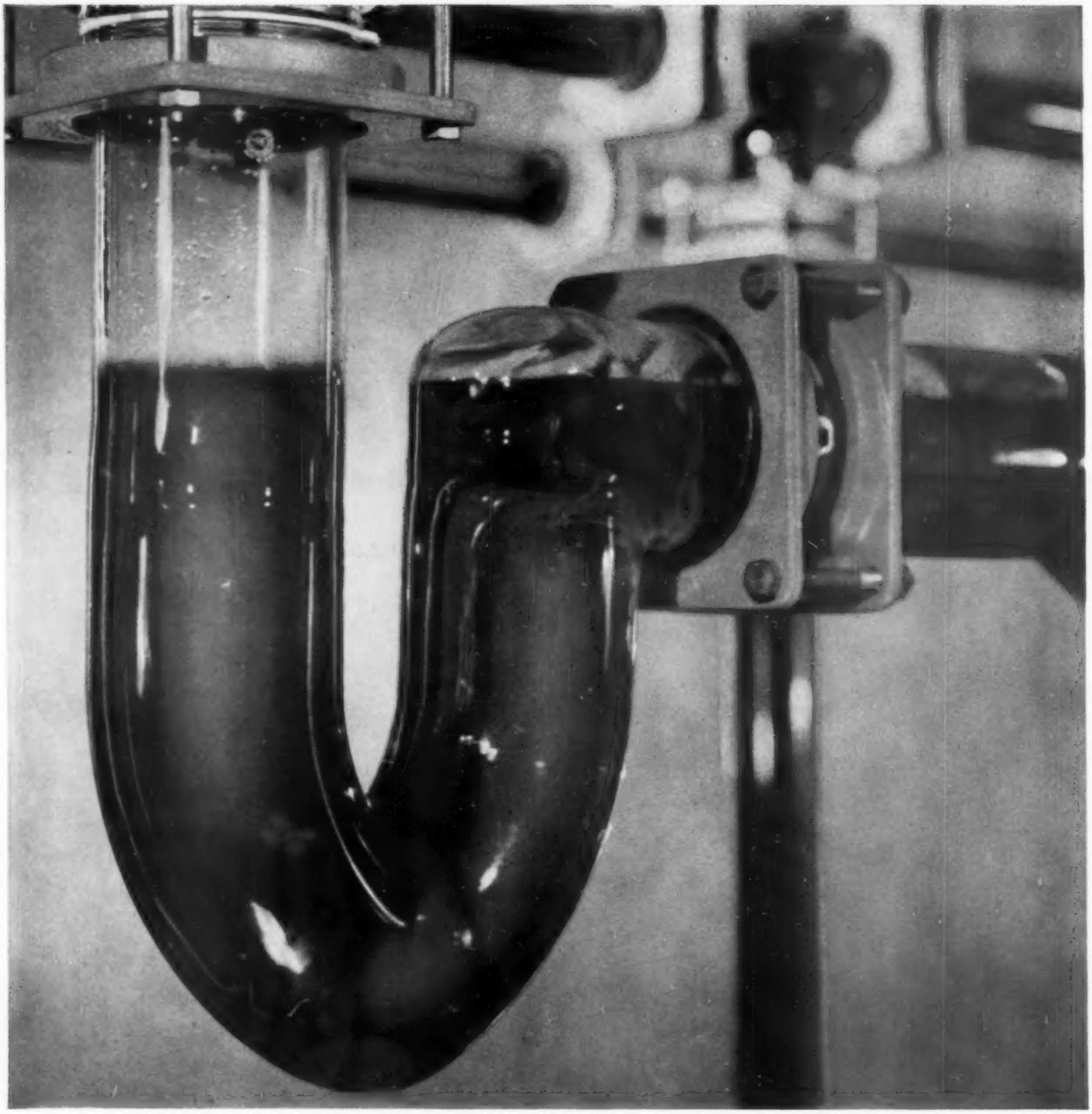
More than 85% of the participants in the Syracuse seminars, for example, had never before been active in politics. After taking the course, one out of ten solicited funds for his party in the 1958 campaign, one out of three made a donation, half attended a political meeting, and all voted. The graduates, on the average, devoted 20 hours to political activity during the campaign. Of the first 300 to graduate, 40 ended up with identifiable party jobs.

• **Cautious Note**—All this adds up to a real trend. However, it may be "growing too fast for the movement to be sound." Sears Vice-Pres. Worthy cautioned. "There is serious danger that enthusiastic amateurs will make mistakes that will give the whole idea of businessmen in politics a bad name . . . What has started out as a trend of great intrinsic value may sputter out as a short-lived fad or—much worse—seriously alienate business from the community at large."

A major problem in keeping the trend growing will be for the businessman to find time for political work. "There may be a growing problem of leisure in our society," Worthy noted, "but it is not a problem of the businessman." In most civilizations political power has gravitated to the group with the most leisure, he said, suggesting that this may be one reason why hourly paid workers are now playing such an active part in American politics.

• **Time Off**—As yet few companies are making much effort to give their executives time off for politics. Most wink at a few hours a week. Some keep on paying salaries to men who are absent to serve in state legislatures. But the amateur politician who gets elected to a job that takes him away for a year or so will face both financial and professional advancement problems, some of the speakers at the AMA meeting conceded.

For the time being, though, top management isn't expecting much more than precinct-level activity from its junior executives. Those who really care will find time for that, David H. Jaquith, president of Vega Industries, Inc., predicted. After all, he declared, the businessman who is not interested in politics is "analogous to the drowning man who is not interested in water." **END**



In Management

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Textile Company Finds Frequent Vacations Keep Executives From Getting Stale

Short vacations at frequent intervals have improved the performance of executives at Bart Schwartz International Textiles, Ltd., New York, according to Pres. Bart Schwartz. A couple of years ago Schwartz got the idea his executives were under too much pressure, might do a better job if they took a break now and then. **So he started giving them a week off after every seven weeks, plus an extra week to provide one two-week vacation each year.**

Now, Schwartz reports, management health, morale, and performance are up. **"In our industry (textile importing), he says, men are likely to "get stale and make mistakes" if they work very long without a change of pace.** The frequent vacations give the 12 executives a chance to do some thinking. "They come back with new ideas, and they make fewer mistakes. It also sort of rounds out their home life."

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Worker-Owned Plywood Plant Scuttles Equal-Pay Tradition

About one-quarter of all plywood produced in the U.S. is produced in worker-owned plants, where all employees are stockholders and all get the same pay, regardless of their job (BW–Apr.9'55,p120). But this system has run into some difficulties lately, so the newest of the worker-owned setups has broken some traditions.

Grant's Pass Plywood Co. in Oregon is scuttling the equal-pay-for-all rule, will match its wages to union pay in regularly owned shops and follow union differentials between jobs. The problem under the old system is that the companies find it difficult to get workers to move up to more demanding jobs.

Another Grant's Pass innovation: Its stock (at $5,000 a share) will be sold on the installment basis. The other worker-owned plants sell stock only on a cash-in-full basis, thus get mainly older workers, who have had time to accumulate savings. Grant's Pass hopes that with its 10% downpayment and 45-month installment plan it will be able to attract some younger owners.

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IBM Shortens Its Lines of Communications By Splitting and Reshuffling Divisions

International Business Machines Corp. has announced a major reorganization, which represents a partial shift in the corporate division of duties from along product lines to functional lines.

IBM's biggest division—Data Processing—has been split into three. Two of the new units are development and manufacturing divisions—one for large-scale electronic systems and the other for intermediate and small computers. The third will handle marketing for both types of systems.

These and other corporate divisions have been reshuffled into two main groups. One group, under Vice-Pres. T. Vincent Learson, will be composed of manufacturing divisions, including the two carved out of Data Processing and the Advanced Systems Development Div., launched two months ago to delve into "hitherto undeveloped information handling areas." The other group, headed by Vice-Pres. McLain B. Smith, will concentrate on marketing but will also have some manufacturing and development responsibilities. It will lump together the new marketing division from Data Processing, Supplies Div., Service Bureau Corp., and the new Federal Systems Div., a government-selling arm created by merging the old Military Products Div. and IBM's Washington office.

The Electric Typewriter Div. and the subsidiary World Trade Corp. will continue to operate outside group lines. **IBM broke up the DP Div. because it was getting too big and complex.** The company figures the change "will bring about shortened lines of communications and faster management decisions" in line with IBM's over-all decentralization policy.

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Soviet Gives Reasons for Switching To Regional Control of Its Industries

Managerial decentralization got a plug last week from a representative of the largest industrial organization yet to adopt it, the Soviet Union.

Speaking to the New York Personnel Management Assn., Leonid Rumyantsev, Second Secretary of the Soviet Embassy in Washington, explained **why the Russians decided three years ago to switch from industrial management by centralized ministries to management by regional economic councils cutting across industry lines.** His arguments had a familiar ring to his audience.

The purpose of U.S.S.R.'s new form of organization, said Rumyantsev "is to bring management bodies closer to the actual production processes." The new setup "will insure more active and more direct participation" and will provide "a framework in which the many thousands of people with potentialities for responsible managerial positions are not so likely to be overlooked." **Already, Rumyantsev claimed, just such results have become evident.**

Rumyantsev also discussed fringe benefits, pointing out that in the U.S.S.R. they account for an especially significant part of total pay. By 1965, he said, minimum wages will be raised to between 500 and 600 rubles a month (a ruble is worth 25¢ at the official rate of exchange, 10¢ under the tourist rate). By then, he added, average fringe benefits will be about 320 rubles.

Work week reductions so far have been limited to shorter hours on Saturdays and the days before holidays, but in 1964, according to the current plan, a gradual reduction will begin which will lead to a 35-hour, and perhaps even a 30-hour, week. Rumyantsev also said in answer to a question from a NYPMA member that few Soviet offices have coffee breaks.

As Recession Ebbs, Pennsylvania

MEASURE OF PERSONAL INCOME

Millions of Dollars

(Seasonally Adjusted)

STATE	1953-55 AVERAGE	MARCH 1958	FEB. 1959	MARCH 1959	% CHANGE VS. YR. AGO
Alabama	$286.4	$350.4	$377.3	$386.9	+10.4%
Alaska	41.9	52.3	55.3	58.3	+11.5
Arizona	126.9	175.7	186.3	194.4	+10.6
Arkansas	153.5	180.8	186.1	192.4	+ 6.4
California	2,341.7	2,980.7	3,223.0	3,274.7	+ 9.9
Colorado	217.2	284.2	310.2	315.1	+10.9
Connecticut	440.7	530.5	556.3	567.7	+ 7.0
Delaware	78.6	98.1	102.7	107.3	+ 9.4
District of Columbia	158.2	175.7	189.7	189.4	+ 7.8
Florida	456.8	626.6	705.1	704.7	+12.5
Georgia	383.2	459.9	478.3	491.2	+ 6.8
Hawaii	76.0	92.8	104.8	108.7	+17.1
Idaho	74.5	93.2	96.4	99.5	+ 6.8
Illinois	1,677.5	1,914.5	2,131.4	2,206.3	+15.2
Indiana	663.5	726.5	803.5	824.7	+13.5
Iowa	357.3	443.3	484.3	484.5	+ 9.3
Kansas	281.8	340.7	358.8	359.4	+ 5.5
Kentucky	307.1	338.2	360.5	367.2	+ 8.6
Louisiana	318.3	419.9	421.1	435.3	+ 3.7
Maine	112.8	129.9	132.5	131.2	+ 1.0
Maryland	432.3	521.9	568.0	569.8	+ 9.2
Massachusetts	799.8	941.1	1,000.0	1,012.7	+ 7.6
Michigan	1,234.1	1,308.0	1,411.0	1,469.3	+12.3
Minnesota	434.8	524.5	548.3	561.1	+ 7.0
Mississippi	160.9	195.3	195.5	206.4	+ 5.7
Missouri	600.9	687.7	741.1	738.5	+ 7.4
Montana	92.3	114.0	120.0	121.1	+ 6.2
Nebraska	182.5	242.3	259.1	252.9	+ 4.4
Nevada	43.1	53.8	61.4	62.0	+15.2
New Hampshire	75.2	87.3	92.4	94.5	+ 8.2
New Jersey	982.9	1,138.4	1,237.2	1,239.4	+ 8.9
New Mexico	91.8	121.5	125.0	126.8	+ 4.4
New York	2,887.9	3,362.3	3,504.7	3,515.0	+ 4.5
North Carolina	429.0	504.9	540.5	552.8	+ 9.5
North Dakota	67.4	85.6	85.2	87.2	+ 1.9
Ohio	1,476.3	1,631.0	1,831.1	1,883.7	+15.5
Oklahoma	268.5	312.2	322.5	329.8	+ 5.6
Oregon	249.8	290.4	311.0	317.4	+ 9.3
Pennsylvania	1,678.6	1,859.0	1,955.2	1,980.1	+ 6.5
Rhode Island	129.9	142.3	149.5	157.2	+10.5
South Carolina	210.0	236.0	247.5	256.6	+ 8.7
South Dakota	73.7	100.8	102.8	105.7	+ 4.9
Tennessee	345.9	397.4	431.4	443.5	+11.6
Texas	1,132.9	1,383.5	1,454.4	1,456.5	+ 5.3
Utah	98.1	124.1	134.3	137.4	+10.7
Vermont	45.9	51.7	55.5	56.1	+ 8.5
Virginia	383.3	529.8	549.2	558.3	+ 5.4
Washington	418.0	490.5	526.3	530.0	+ 8.1
West Virginia	209.7	251.7	269.1	271.8	+ 8.0
Wisconsin	528.2	610.1	644.7	653.6	+ 7.1
Wyoming	45.9	57.6	57.4	58.9	+ 2.3
NATION	$24,363.5	$28,770.6	$30,794.9	$31,305.0	+ 8.8%

March figures preliminary; February revised.

The keystone state's recovery is hinged so closely to steel production that a long shutdown would cut into its economy.

BUSINESS WEEK'S Measure of Personal Income (table, left) shows the trend of business conditions in all 50 states. Following is a more detailed look at what the income figures mean in one of them—Pennsylvania.

Pennsylvania, one of the hardest-hit victims of the recession, is both typical and unique in its current state of economic health. It is typical in that it is sharing in the general recovery from the slump, although with no startling ebullience. It is unique in that it relies so heavily on one industry—steel—for the progress so far.

Recovery in Pennsylvania would be even more moderate than it is were it not for near-capacity operations in the steel mills—and for vigor in construction. For outside these two fields, the state's economic picture is still spotty.

As a result, observers on both sides of the Alleghenies wonder what will happen if steelworkers go on strike June 30.

• **Two Views**—William L. Batt, Jr., Pennsylvania's Secretary of Labor & Industry, thinks the state will suffer if they do—and suffer if they don't. If there isn't a strike, Batt contends, the steel mills will have to cut back drastically anyway, because steel inventories have been built so high in expectation of a walkout. The rest of the economy couldn't take up the slack, he thinks.

Others disagree. David Melnicoff, economist for the Pennsylvania RR, for instance, insists steel inventories will not prove excessive if a strike is avoided.

From Hawaii to

This year's heartening increase in employment is mirrored in the latest figures for personal income—displayed at left, BUSINESS WEEK's new Measure of Personal Income.

U. S. incomes in March, 1959, were 8.8% better than in the same month last year, when the slump was bottoming out in many states. Much of the credit goes to the 1.5-million upturn in jobs and the 9.6% rise in average weekly earnings in manufacturing.

The recovery shows up everywhere, but 21 states did better than the national average. Hawaii led with a 17.1% increase over the year before to attest to the impact of statehood and the tourist boom. Other substantial gainers

Wonders About Steel Strike

Besides, he adds, other segments of the state's economy, including durables and capital goods, are gaining strength.

Everyone agrees that Pennsylvania could ride out a short strike easily—but that a long one would hurt.

• **Fewer Jobless**—Meanwhile, the unemployment figures are encouraging. The state's total of jobless has dropped from a recession high of 520,000 last June to less than 400,000. The portion of the labor force out of work has dwindled from 10.9% to 8.9% in the same period. For the first time since mid-1957, employment is ahead of year-ago figures. However, these gains are less responsible for reducing the ranks of unemployed than is the withdrawal of persons from the labor force.

The chief force behind rising incomes is better pay for the men and women at work. Mainly because industry prefers to pay overtime to existing workers rather than to rehire laid-off employees, average weekly earnings in Pennsylvania are up about 10%, from $80.94 to $89.27. In steel, the average is up even more—from $96.30 to $120.10, as average weekly hours increased from 35.8 to 39.9.

This high rate of pay filters all through the economy. Department store sales are up over a year ago by anywhere from 2% in Wilkes-Barre to 22% in Lancaster. Philadelphia and Pittsburgh report increases of 6% and 4%, respectively. Auto sales are up, and construction, particularly of homes, is booming. There's still enough money left over to fatten savings accounts.

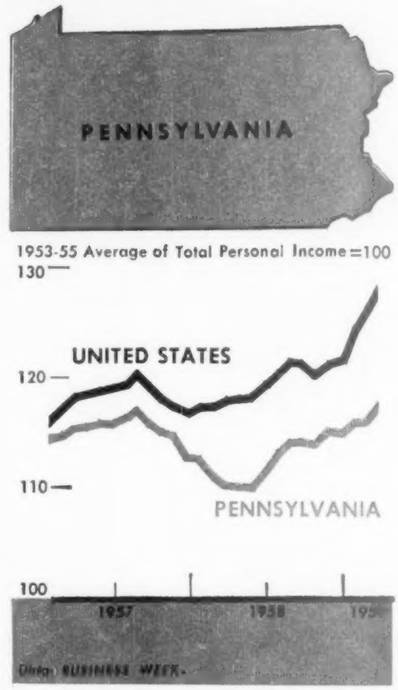
• **Psychologies**—As the strike deadline approaches, there's a distinct contrast in mood between steel cities—particularly between veteran Pittsburgh and newcomer Fairless Hills.

In Pittsburgh, steel employment is near an all-time high, and steel wages are the highest in the state. There's no sign that the customer is holding back on spending; in fact, retailers say the weather is a more important factor than the strike threat. Says a banker with new car loans up 24% over 1958: "There's talk about a strike, and certainly the workers think about it, but do they really stop buying on the possibility? I think it will have to be a reality first." He and other bankers note that savings accounts are growing more slowly than last year, apparently because workers are spending more in their confidence.

Around U. S. Steel's Fairless Works, however, employees have begun to retrench. Many of them were new to steel when the 1956 strike hit them, and they weren't prepared. With a recession period of no work or short weeks just behind them, they are more cautious this time. They are buying only necessities, putting overtime-fat checks into savings accounts, and paying off debts as quickly as possible.

• **Happy Harrisburg**—Elsewhere in the state, Harrisburg and Lancaster continue to be bright spots. Harrisburg, the capital, benefits both from steel activity and state government expenditures. In Lancaster, hiring is up at companies such as Armstrong Cork and Hamilton Watch.

Even in Altoona, with its chronic labor surplus, the situation is happier. The Pennsylvania RR has rehired virtually all the workers at its car shops, and the steel boom has helped the area's two refractory brick plants. A shirt plant has closed, but new plants and expansions have more than made up for this. SKF Industries, Inc., is doubling its 300-man force, for example.



The coming of new industries and expansion of old ones, in fact, has given a new feeling of stability to the depressed anthracite belt of Eastern Pennsylvania. Encouraged by a three-year-old program of state loans, communities have been raising matching money and obtaining institutional mortgages for plants. Scranton is just winding up a $1.5-million drive. Despite unemployment of 15% or so in both Scranton and Wilkes-Barre, savings and department store sales are up in both cities.

Florida, Everyone Is Better Off

in the year-to-year comparison were:

Ohio led the big industrial states with a 15.5% upturn, thanks to a healthy rise in metalworking activity.

Illinois, one of the states hardest hit by recession, went up a badly needed 15.2%. Hardgoods industries reported almost 30,000 more jobs in March than a year before. But total nonfarm jobs were still more than 40,000 below the January, 1958, level.

Nevada incomes increased 15.2%, significant since the slump scarcely affected this state. Nevada continues to benefit from brisk tourist business.

Indiana showed big increases in employment in primary metals, in electrical machinery, and—thanks to settlement of labor disputes—in autos. As a result, March incomes climbed 13.5%. Indiana's unemployment dipped 33% in the year while the national total was declining only 16%.

Michigan purses fattened 12.3%, with March manufacturing employment the highest in 15 months—but 29,400 short of December, 1957. The state is still in serious financial trouble.

• **Below Par**—In 29 other states and the District of Columbia, personal incomes increased but at a rate below the national average. All the New England states except Rhode Island fell into this category, and Maine's 1% improvement over March, 1958, was the smallest in the nation.

New York was the slowest of the major industrial states to snap back from recession. Incomes gained a scant 4.5%. Though improvement was evident in many quarters, manufacturing jobs in March were still behind the level of December, 1957.

• **Month to Month**—From February to March, the increase in incomes across the nation was 1.7%. All but four states and the District of Columbia showed a rise. But even among the losers, only Nebraska's 2.4% drop was notable. Other declines ranged from a barely perceptible 0.1% in Maine and Florida to 0.3% in Missouri. Mississippi's 5.6% improvement was the best month-to-month surge.

The Hidden Cost of Borrowing

● For corporate debtors, the interest rate may be only part of the cost. They may have to keep part of a loan on deposit as a "compensating balance."

● As money is getting tighter, banks more and more are increasing their balance requirements—up to 20% in many cases.

● The result: Loan demand is increased and the flow of money is slowed down.

When the nation's commercial banks last week boosted their prime lending rate from 4% to 4½% (BW—May23'59, p90) it meant higher interest costs on all bank borrowings. This was the first rise in the prime rate since last fall; yet bank borrowing costs have in fact been climbing slowly for months, thanks to a little-understood banking device—compensating balances.

As any corporate treasurer will tell you, there's more involved in most bank borrowing than merely having a good credit rating and paying back the loan when it comes due. Increasingly, bank loan officers demand that their customers keep part of the borrowed funds on deposit—20% is mentioned most frequently, though company treasurers can sometimes beat this figure down. And if you're a heavy user of credit, you will probably be asked to keep a balance at the bank even when you're not borrowing.

If you don't conform to these requirements, of course, you run the risk of not getting your present loans renewed or of not getting additional credit when you need it. So these compensating balances must usually be counted as a clear addition to the cost of credit. If you borrow $100 at 4%, but the bank only lets you use $80, the effective rate of interest becomes 5%.

• **Negotiating Point**—It's no wonder then that compensating balances have become a key bargaining point in loan negotiations. From the banks' viewpoint, too, requirements tend to vary according to the state of the money market. When money is tight, as it is today, banks demand higher balances than when money is slack, as it was a year ago.

Thus, the shift in the banks' requirements seems, in effect, to exaggerate the swings of the credit system. Currently, with business picking up and credit needs growing, banks are insisting that an increasing amount of each loan be left on deposit. Knowing that it can't use the face amount of its loan, a corporation that needs a certain amount of money must ask for a still larger amount to cover its obligations. In short, compensating balances appear to make tight money tighter.

Federal Reserve officials are aware of the effect of compensating balance requirements by the banks, but they say it doesn't make much difference as far as over-all credit policy is concerned. If credit demands should become too intense because of stiff requirements by banks, the money managers say they will be able to sense it in the New York money market and to act accordingly. So far, they say, compensating balances haven't had this effect.

• **Nothing New**—Compensating balances are nothing new to banking. Prior to the 1929 crash, it was well accepted that banks insisted on substantial compensating balances. But these balances weren't so onerous, since banks granted 1% or 2% interest on demand deposits of big corporations that were regarded as good customers—sometimes paying this interest even when the companies were borrowing.

This practice ended during the Depression, when loan demand shrank to zero and banks had idle balances and huge excess reserves. This was the period when the prime rate was established as a floor under interest rates.

• **Postwar Relapse**—Since World War II, compensating balances have come back into favor. A survey of the 100 largest banks by Robert Morris Associates, the national association of bank credit men, in 1954 showed that 65% of banks required a compensating balance as a condition for obtaining a line of credit. In the spring of 1958, when credit was easy, a similar survey showed the figure up to 71%. Today, it's a safe bet that most banks demand compensating balances.

While the practice is growing, few bankers can cite specific reasons for it, and fewer still realize its impact on monetary policy. A BUSINESS WEEK survey of bankers and company treasurers brings out these four reasons why banks make the demand:

• It is a major source of money for banks to lend, says Wentworth P. Johnson, senior vice-president of Fidelity-Philadelphia Trust Co., adding: "Today it's more important than ever to get borrowers to leave compensating balances on deposit." If a bank didn't require such deposits, its lending power—and, consequently, its earning power—would be seriously impaired.

• Such balances are part of the interest rate structure, says a Detroit banker. "Changes in the prime rate are a crude and cumbersome tool," he explains. "We use compensating balances to adjust our lending rates between prime rate changes."

• They help draw distinctions among "the large number of prime-rate borrowers on our books," says a West Coast banker, "and, when money gets tight, to ration credit. That's why the sales finance companies, which really use bank credit as part of their permanent capital, face such stiff requirements—we'd rather accommodate our regular seasonal borrowers."

• The practice helps to force borrowers into a continuing deposit relationship with a bank. This is a major consideration, according to a New York bank analyst, for the big money-market banks, which do much of their lending to out-of-town corporations.

• **Does It Work?**—The desire to conserve lending power is probably the most important reason for requiring compensating balances. However, many banking authorities say it doesn't work, either for the banking system as a whole or for most banks by themselves. Some even say stiff requirements create more problems than they solve.

I. Source of Loan Funds

According to law, banks must keep a portion of their assets on deposit with the Federal Reserve as a reserve against their own deposit liabilities. For the sake of easy arithmetic, assume this reserve requirement is 20%—actually it's less than that today.

A 20% reserve requirement means that for every $100 the banking system has in its reserve base, it can carry $500 of deposits—another way of saying that $100 of unused reserves represents $500 of lending power.

Here's how this multiplier works: When reserves are added to the banking system—either by a foreigner's sending money here or by Federal Reserve action—they show up in the form of a deposit at a commercial bank. When the bank gets such a deposit of, say,

$100, it must hold $20 as a reserve, but it's in a position to lend $80 that it couldn't lend before. In the absence of compensating balance requirements, the borrower will spend all of this $80; his checks come back to the banks in the form of deposits that, in turn, form the basis for further lending.

This process continues with successively smaller loans until the 1:5 expansion is complete. At that point, the $100 of additional reserves is supporting $500 of additional deposits.

• **Balance Requirements**—Obviously, this theoretical model of bank lending doesn't apply to the individual bank as it does to the system as a whole. And the effect of balance requirements is another complication.

What happens when borrowers are blocked by these requirements from drawing the full amount of their loans and thus distributing reserves in the banking system?

The first bank to receive the $100 addition to bank reserves will be able to extend more credit than it would without compensating balances. That's because a portion of the bank's deposit liabilities is blocked by the requirement that part of the loan remain on deposit. The banker winds up with more reserves, hence can boost his loans and earnings proportionately. But if you work the arithmetic all the way through, you find exactly the same ultimate credit expansion, with fewer banks sharing in it.

This suggests that it's probably impossible for any bank to increase its share of the banking system's loans and deposits by requiring compensating balances. Just as Bank A is blocking part of its deposits from flowing into the banking system; so other banks are blocking deposits that might otherwise have flowed to Bank A.

• **Lower Velocity**—Moreover, when a banker tells his customer to maintain a specified balance or run the risk of losing his access to credit, the bank is cutting back the rate of deposit turnover—"velocity," the technicians call it.

In so doing, bankers are running directly opposite from the means used by many corporate treasurers to get around the Fed's recurrent tight money policies: more efficient use of cash, lower bank balances, higher velocity.

II. Corporate Customers

Banks have been getting more sophisticated about handling their big corporate customers. For one thing, they have installed cost accounting systems to determine their out-of-pocket expenses on big and busy company accounts. An Atlanta banker comments that some accounts that looked good on the surface have proved to be carried at a loss.

Knowing their breakeven figure, banks have been going after deposits that will keep them in the black on big accounts. This has been a factor in the requirement of stiffer compensating balances. Despite theoretical arguments that compensating balances don't really help the banking system and may even hurt it, this practical consideration is one reason why banks are likely to continue pressing for even higher balances.

• **Sharp Pencils**—This trend, of course, runs counter to the responsibility of corporate treasurers to avoid holding cash in unproductive demand deposits. It gives treasurers a ticklish problem in another responsibility: to keep on good terms with bankers so they can borrow when necessary.

Most treasurers like to put their excess cash to work by investing in U.S. Treasury bills or other short-term investments, even if the cash is surplus for only a few days. At present tight-money rates, a company with $1-million to invest can earn close to $100 a day on that money.

Bankers, however, are nettled by these "sharp-pencil" tactics. They say corporate treasurers who continually pare their deposits to the bone are ignoring the basic function of the commercial bank in the economy: to pool the economy's liquid assets and put them to use where they are needed.

• **Retaliation**—Banks have their ways of getting back at companies that keep them continually starved for deposits. One of the nation's largest companies, which had built itself a reputation among bankers for being hard to live with, woke up one morning during the money squeeze of 1957 to find that none of the major New York banks would buy commercial paper of its sales finance subsidiary. Today this company keeps sizable balances with its New York bankers.

Sales finance companies, such as General Motors Acceptance Corp., Universal CIT, Commercial Credit, and the like, probably keep more balances among the nation's banks than they would if it were not for the compensating balance requirement.

• **Concessions**—The banks do make a concession to GMAC and other sales finance companies—they often accept "related balances," belonging to the parent company or its dealers, as part of the compensating balance.

Libby, McNeill & Libby, large Chicago canner, is a big seasonal borrower. It has won from its bankers the right to cut its compensating balances to 12% for its inactive accounts, 17% for accounts on which many corporate checks are drawn. In some cases, too, Libby has borrowed from Canadian banks, which have no compensating balance requirements, at an apparent saving of about 1% in interest cost. END

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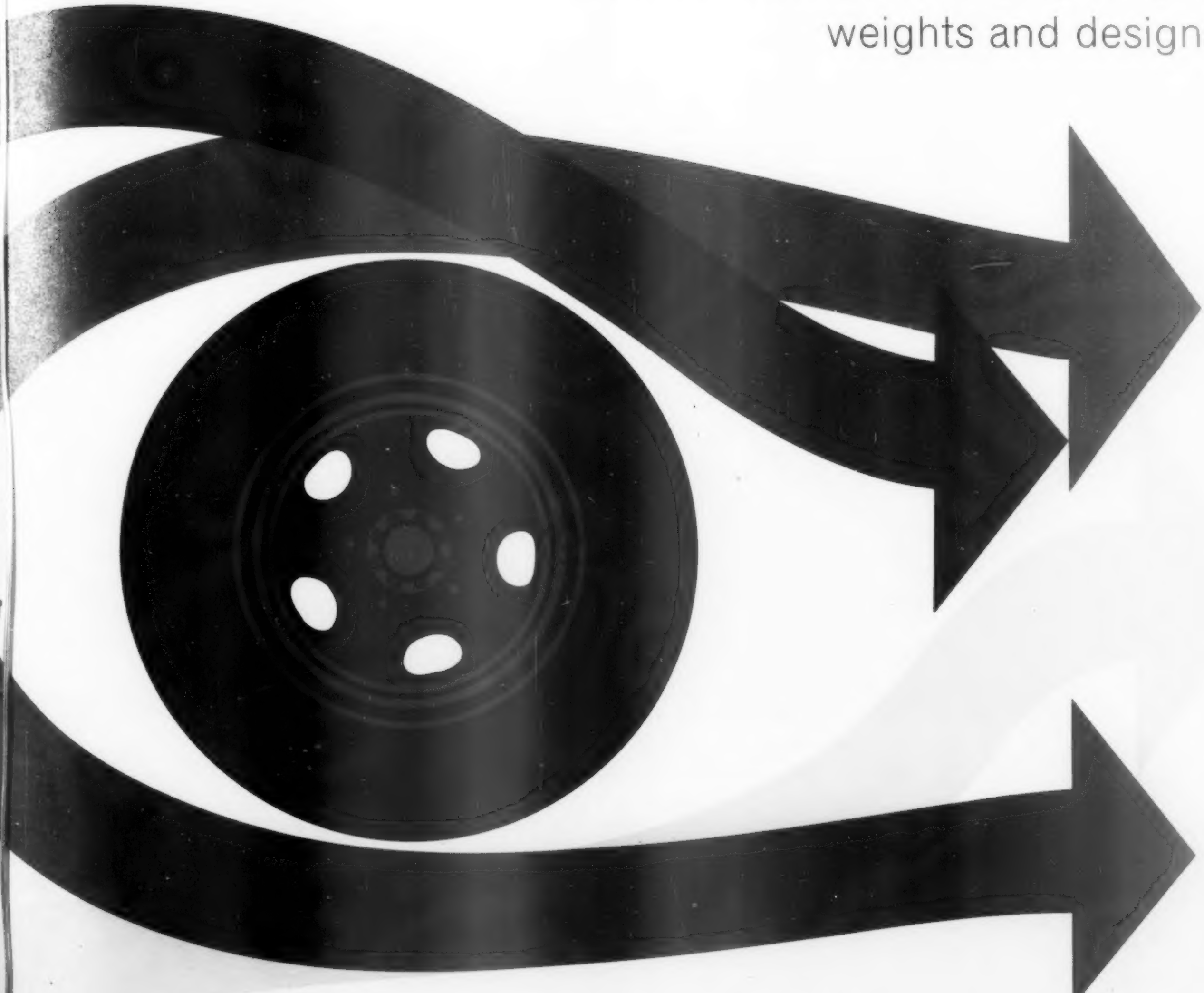

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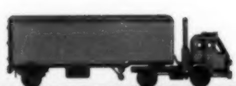
UNIT TYPE									
GROSS VEHICLE WEIGHTS	35,000 to 42,000 lbs.			55,000 to 60,000 lbs.			64,000 to 72,000 lbs.		
TOP M.P.H. DESIRED**	45	50	55	50	55	60	[illegible]	[illegible]	[illegible]
MAXIMUM REQUIRED HORSEPOWER	110	132	160	166	195	230	194	227	262
GENERAL SERVICE MODELS*	JF-6-B	JN-6-B	JS-6-B, C-160	NH-180	NH-195	NH-220	NH-195	NH-220	NTO-6-B
LIGHTWEIGHT MODELS*	JF-6-B	JN-6-B	JS-6-B, C-160	C-175 JT-6-B, NT-180	NT-200	NH-220	NT-200	NH-220	NTO-6-B

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	50	55	60	50	[illegible]	60	[illegible]	55	60	50	[illegible]	[illegible]
	204	238	275	142	163	187	171	195	220	180	206	234
-B	NH-220, NH-195	NT-6-B	NRT-6-B	JS-6-B C-160	NH-180	NH-195	NH-180	NH-195	NH-220	NH-180	NH-220	NT-6-B
-B	NT-200	NT-6-B	NRT-6-B	JS-6-B C-160	C-175 NT-180	NT-200	C-175 JT-6-B, NT-180	NT-200	NH-220	C-175 JT-6-B NT-180	NT-200	NT-6-B

her, it is

**Normal cruising at 5 m.p.h. less than top speed.

In Finance

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British Banker Urges Coordination Of Credit and Monetary Policies

In a presidential address to Britain's Institute of Banking, Lord Monckton, chairman of the Midland Bank, focused attention last week on a number of problems that concern American bankers. Accepting the premise that full employment policies call for increasing government regulation of banking, **he pointed out the restrictions should not be allowed to be offset by diversions to other financing institutions.** That, he said, could distort the financial system and defeat the restrictions.

Monckton warned that bankers "may have to become accustomed to restraints on our freedom of operation . . . that would have been bitterly resented by our forebears in banking," though he felt that such restrictions are necessary. He urged the government to coordinate its credit and monetary regulations, and asked that the Radcliffe Commission, which is currently examining the British financial system (BW–Jun.1'57,p99), arrive at some solutions to the problem.

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Travelers Offers "Safe Driver" Insurance

The Travelers Insurance Co., one of the nation's largest sellers of auto insurance, this week announced plans for an experimental "safe driver" insurance program in Iowa, Nebraska, Michigan, and Minnesota, offering reduced rates for good drivers. Travelers will set its own rates in these states, but will continue to subscribe to rates of the National Bureau of Casualty Underwriters in other areas. The National Bureau has a similar plan already operating in California (BW–Apr.4'59,p79).

Travelers says it is making the move because of its "frightful" losses on auto insurance in the past few years. The company, which sells practically every kind of insurance, found that rigid Bureau rates were causing it to lose applicants for auto insurance who were good customers for other forms of insurance. Travelers thinks a cash reward for good driving is bound to cut accident rates eventually.

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Armour's 1954 Reorganization Plan Upset by Court as Unconstitutional

The Illinois Supreme Court ruled out as "unconstitutional" the 1954 recapitalization plan put through by Armour & Co. Armour's plan involved redemption of $50-million in its convertible preferred stock in exchange for cumulative income subordinated debentures yielding 5% as well as warrants enabling holders of the old preferred to buy Armour common stock at fixed prices over a 10-year period. The plan was approved by 70% of the stockholders and accepted by 98%. **But at least 2,700 shares of the 500,000 outstanding, held by stockholders who pressed the court action, were not exchanged.**

The court ruling reversed a favorable decision for Armour made in Superior Court. Supreme Court Justice Harry B. Hershey ruled that compulsory redemption of the preferred changed the status of stockholders from owners to creditors, and violated their rights.

The company said this week that the court's decision applied only to shares held by the plaintiffs, and "should have no effect on outstanding debentures and warrants." Armour held that the recapitalization has meant a tax saving of about $1.5-million a year–because the $3-million it pays out on its debentures is tax deductible, while the dividends on the preferred were not–and may ask for a rehearing if the court feels that the entire 500,000 shares come under the ruling.

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Bank Merger Planned in Pittsburgh Would Unite Assets of $974-Million

Sometime this fall–barring unforeseen intervention by federal or state regulatory authorities–Pittsburgh will have a new bank with assets close to $1-billion. The institution, to be called the First National Bank of Pittsburgh, will be formed by the merger of Peoples First National Bank & Trust Co. and the Fidelity Trust Co. Combined assets of the two banks are $974-million, which will rank the new bank fourth in the state and 28th in the nation.

The merger is expected to spur competition with Pittsburgh's largest bank ($2-billion-plus assets) the rich, old Mellon National Bank & Trust, particularly in consumer banking. First National of Pittsburgh will have about 50 branches, compared to 60 for Mellon.

But in the field of big business loans, Mellon will continue to dominate, principally because of its huge capital position. Mellon has capital funds of over $277-million (which means that it can make loans of up to $27-million to one customer); First National, on the other hand, will have about $80-million in capital (which allows it to lend up to $8-million to a customer).

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Finance Briefs

Advocates of **expanded branch banking met two defeats last week.** In Wisconsin, the state assembly defeated a bill that called for limited branch banking in the state, and in Illinois, a bill that would have permitted Chicago banks to open up branches in the suburbs was killed. In both states, branch banking supporters promised a new fight next year.

Business loan demands in the hinterlands are soaring far beyond the Federal Reserve's estimates. For each April week, the Fed had to raise its estimates of member banks required reserves by $55-million after the final reports were in from the country banks. This showed that these banks had made larger loans, and thus created bigger deposits, than had been expected. Last week, the Fed made another revision–raising required reserve weekly estimates for May by $46-million.

Faster, Brainier Computer Breed

Transistors and magnetic devices give new computers more capacity and reliability for speedier data processing.

A new breed of commercial computers is about to take over in the data processing field, after five years of well-publicized birth pains. The new race is the solid-state variety of computers, so-called because it uses solid-state circuitry—transistors and magnetic devices that consume little power and take little space compared to vacuum tubes.

These circuit elements—often called static circuitry because there are no moving parts or heated filaments in them—have a much longer theoretical life than ordinary vacuum tubes. Their use gives the new computer breed its advantages of greater reliability, lower operating costs, higher speed, and larger capacity.

The triumph is more than technical, for all this eventually adds up to more data processed per dollar invested. And the new generation of computers is expected to expand substantially a market now estimated at $400-million to $700-million a year.

• **Schedule**—The army of commercial solid-state data-processing computers will be landing on a fast schedule. The first RCA 501 from Radio Corp. of America and the first Univac Solid State in this country are to arrive next month, National Cash Register's first NCR 304 in September, and the first IBM 7090 this fall. The IBM 7070 and the Honeywell 800—entry of Datamatic Div. of Minneapolis-Honeywell Regulator Co.—are due in 1960.

The advance guard set up a beachhead last year, with Philco's Transac S-2000 here, and the Univac Solid State—made by Remington Rand Div. of Sperry Rand Corp.—in Germany.

In other fields than data processing, solid-state computers made an even earlier entry. For process control, solid-state computers by Daystrom, Inc., and others have been operating since last year (BW—Nov.22'58,p64), and a division of Thompson Ramo Wooldridge Inc. has had one out since 1957 (BW—Oct.5'57,p182). Solid-state military computers are even older. And for one type of data processing—in banks—transistorized equipment by IBM, General Electric, NCR, and Burroughs Corp. is riding the current wave.

The new commercial generation itself was heralded as far back as 1954 by the development of solid-state package units that go into computer systems—such as magnetic core memories.

• **Bolder Still**—But already another, still bolder generation of computers is overlapping the one now arriving—a generation that will be able to handle a number of problems simultaneously, instead of one at a time. Its herald is the Honeywell 800, which will be the first commercial computer to increase speed and capacity through its ability to process eight problems at once.

The French Gamma 60 also takes a step in this direction. Two coming giants, IBM's STRETCH and Rem Rand's LARC—both in the works for the Atomic Energy Commission—will carry it much further. Their gains may be available soon in commercial models.

This kind of advance doesn't come just from new materials or devices. It depends on new logic designs—new ways of routing information through a computer system, new ways of operating on it—embodied in new kinds of circuits and arrangements of components. The first, less ambitious generation of solid-state computers has also made such advances, on a more limited scale—and many experts feel some have an edge on others to the degree they have improved their logic of just substituting transistors for tubes.

• **Plateau Ahead**—It looks to many computer men as if advances of both kinds are reaching something of a plateau, with any new wave of radical changes likely to be five to 10 years away—even where research has already proved the next major breakthroughs possible. The likeliest gains before 1970, they think, will be made by the customers themselves: better programing, and business systems that make better use of computer systems.

This plateau, if it's reached, should ease the pain of rapid obsolescence, which has been a worry to computer makers. "Old" machines—which go back, actually, only one to five years—don't wear out; but they may become uneconomic as new computers drive down the cost per computation.

I. Changing Hardware

The weapons that are bringing the triumph of the solid-state computers in the data processing field are many. Basic to their advance are new components. That means fundamental elements such as transistors, ferrite cores, magnetic amplifiers, and printed circuit cards, rather than the more inclusive package units that make up a system.

These solid-state elements have several advantages. **They are more economical than vacuum tubes** because they fail less often in many uses, last longer, take up less space, use less power, don't need elaborate air conditioning.

Solid-state elements also make units of a computer system more efficient because **they make possible higher speeds and larger capacities.** Larger memories are possible, for example, not just because magnetic cores are getting smaller and because transistors are midgets compared to most tubes, but because you can get information into and out of these memories fast enough for extra capacity not to be particularly burdensome.

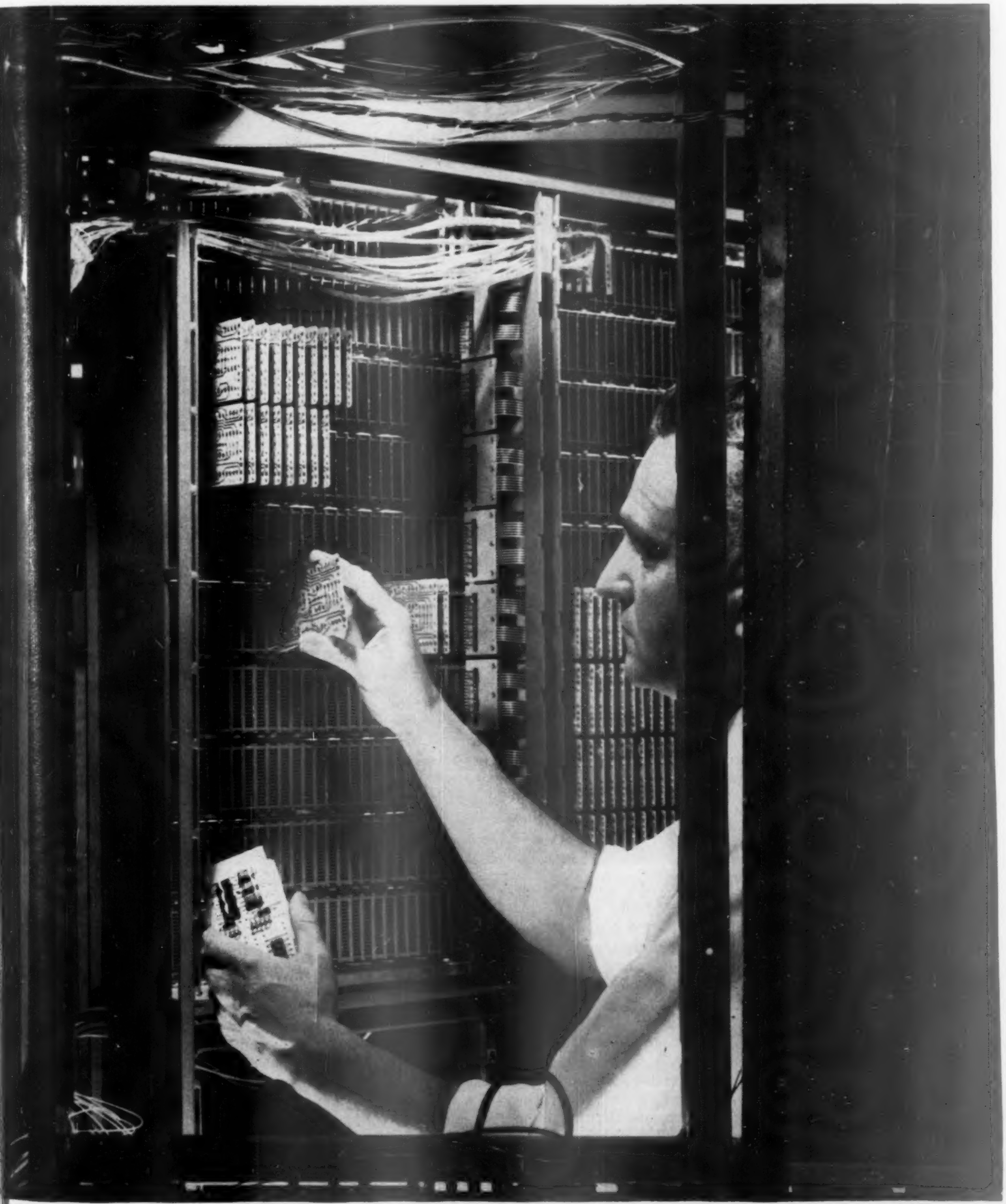
This shows up in the size of the new generation's core memories—up to 32,768 "words" of computer information (though some of these memory units were available with vacuum-tube systems). Internal speeds of the central processing units show the new generation's advantages more clearly; these range from 11,760 additions a second in the Univac Solid State to 208,000 in the IBM 7090, against 5,000 to 42,000 in the older generation.

Peripheral units—input-output devices and auxiliary memories—have improved, too. New printers can print from 600 to 1,500 lines a minute; 600 used to be nearer a maximum than a minimum. Many new magnetic tape units transfer information at 90,000 characters a second, where 25,000 used to be common. New ways of hooking units together make it easier to have input-output equipment handling one set of data while the central processor works on another, or to run up to eight input channels at a time.

• **Price and Performance**—More important in determining a computer's over-all capacity is system design—the way units are hooked up to put a logic into effect. The only way you can try to measure that is by the performance you get for the price you pay for the whole system. Prices for the new computers in large systems tend to be a little lower than prices for comparable old models; they're a little higher in medium-sized systems, but performance is much greater.

It's hard to make exact comparisons because prices for all sizes go up as you add units to your original system. But a typical IBM 7090 sells for $2,880,000, while the older 709—one-fifth as fast in internal speed—sells for $2,630,000. Other new prices for different types of machines: Philco's Transac S-2000, about $1-million; the NCR 304, the same; the Univac Solid State, $347,000; the RCA 501, about $600,-

Coming to Devour Business Data



EASY ASSEMBLY of central processing unit of IBM's coming 7070 is made possible by printed circuit cards with solid-state elements.

000; the Honeywell 800, starting at about $500,000.

They promise to outperform vacuum-tube systems costing 30% less to 100% more. But the older machines aren't through, and companies will go on making them. Since IBM began taking orders for the 7070, Burroughs has sold 27 of its 220s, priced at $650,000 and competitive with transistor systems.

II. Changing Logics

The real triumph of the new computer breed, some experts feel, is the fact that solid-state elements make it practical to get down to a more basic building block—a more logical circuit. As in any production problem, you're better off when you can reduce variety and complexity of components.

The new building blocks are such that you can mass-produce them, and use another computer to design ways to put them together. The older circuits were too complex for mechanized design or production; and the simpler ones make it easier to design logical paths for information through the computer.

• **"And/Or"**—These simpler circuits are new to computers but not to electronics generally. They're "and" and "or" circuits, usually lumped under the lawyer's favorite "and/or" phrase. An "and" circuit needs two signals at once to switch it on, and keep it on, as in a floor lamp that plugs into an outlet connected to a wall switch—both wall and lamp switches must be on for the lamp to operate. An "or" circuit goes on when it gets either one of two signals, goes off when there is no signal—like a stair light you can switch on at the top and off at the bottom.

These circuits can be made with many kinds of components, but with solid-state elements you can put them in small packages with easily interchangeable plug-in units that couldn't be made as simple with tubes. Without this, the new systems would be uneconomic.

With several "and/or" circuits, you can build up the more complex flip-flop circuits that previously were the basic computer building blocks. A flip-flop circuit is one that can be switched into a positive or negative state and kept there until it gets a new signal to change. IBM had a flip-flop package of 16 transistors, arranged differently for each application. Now it can make a flip-flop with an eight-transistor standard pattern, connecting a few others in separate circuits for more applications.

III. Changing Functions

To the computer user, the details of these changes in components and design mean less than understanding what a computer can do for him, and how to fit company and computer together so as to make full use of the computer system's potential.

More than ever before, the new generation of computers is broadening computer functions and blurring the old line between scientific and business machines. Traditionally, business use has required large input-output capacity for large volumes of data, with computation small and slow for sorting, merging, and simple arithmetic. Scientific use, working with a few formulas, has needed relatively small input-output capacity but plenty of high-speed, complex central processing.

But now more business problems need elaborate computations, and use scientific machines, or "scientific" processors hitched to "business" input-output systems. And scientific problems turn statistical, with massive data.

The new solid-state computers mark the first big effort to design this double function into one system, with high speeds and capacity in all units.

• **Simultaneous**—Manufacturers point out that the new systems are modular, so you need buy only the capacity you can use. Yet some users are afraid of being saddled with more processing ability than they need. The Honeywell 800 seeks to allay this fear by using the large capacity of a "scientific" central processor to solve a number of business problems at the same time.

Its processor's capacity is 30,000 complex operations a second. Most business problems need only 3,000 per second. But the 800 can put in eight problems at once, and the processor has no trouble handling all eight.

It does this by interrogating each of 16 input-output channels in turn, making the rounds 8,000 times a second and remembering which channels have information on which program. Information for each program goes to a different part of the central processor. The logic and circuits that are the basis of this technological advance are possible only with a particular kind of transistor.

• **Universal?**—Development of the Honeywell 800, LARC, and STRETCH make some people wonder if a truly universal computer is in the offing—one that would handle the same volume of data per dollar for any application. Most manufacturers say no, because it would have to be huge and no one would want to pay for capacity he couldn't use; and because it's unlikely the same system could be used for data processing and for process control.

Some engineers, however, feel a huge, super-fast universal computer is possible on a different economic basis—with lowered unit costs, and use shared by many customers getting service by wire, possibly on a public utility basis. END

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Double-Quick Color Movie Film
Offers Advantages in TV, Other Uses

A new motion picture color film twice as sensitive to light as that currently in use has been developed by the Eastman Kodak Co. The new film is of the negative color type, meaning that the colors are reversed on the negative just as they are on an ordinary black and white snapshot film.

The advantage of this is that TV package producers and commercial and documentary movie makers can take a chance and shoot in color—then print in either color or black and white, depending on the customer's demands. (The footage can also be locked away for later use in color TV.)

Faster speed of the film also makes production economies possible. Less lighting will be necessary, which will cut down on the heat generated by lights. This will allow producers to complete more scenes at one shooting. Smaller lens openings, too, will be possible, and that will keep distant objects in sharper focus. The new-type 5250 film will be available in 35 mm., 65 mm., or 70 mm. widths.

• • •

New Substitute for Tree Rubber
Nears Full Production in Italy

Montecatini, Italy's chemical giant, reports that it is in semicommercial production on its new ethylene-propylene synthetic rubber (BW—Mar.28'59,p88). Properties of this material approximate those of natural rubber and excel those of the other synthetics in some cases. The ethylene-propylene copolymer has good wear resistance, for example, and better than average resistance to oxidation, aging, and heat.

The main commercial importance of the new Montecatini synthetic, however, is the rock-bottom cost of its chemical ingredients.

• • •

Jets Give Ford's Levacar a Lift,
Let It Glide Along Above Ground

Ford Motor Co. last week showed stockholders its new Levacar, an 8-ft.-long vehicle without wheels that slides on a film of compressed air a fraction of an inch above the earth's surface. Three jets on the underside of the Levacar lift it; two rear jets provide enough reactive force to get the car up to 15 mph.

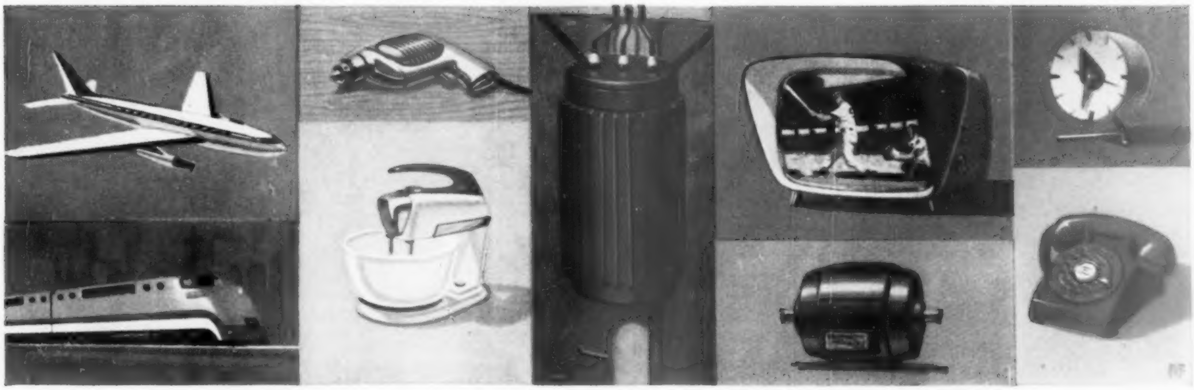
Ford expects the Levacar eventually to become a mass transportation vehicle riding over rails because no road would be smooth enough, with a turbine supplying thrust for levitation and forward motion. Curtiss-Wright Corp. recently unveiled a one-passenger Air Car for "free" travel about 1 ft. off the ground (BW—May16'59,p38).

• • •

Production Briefs

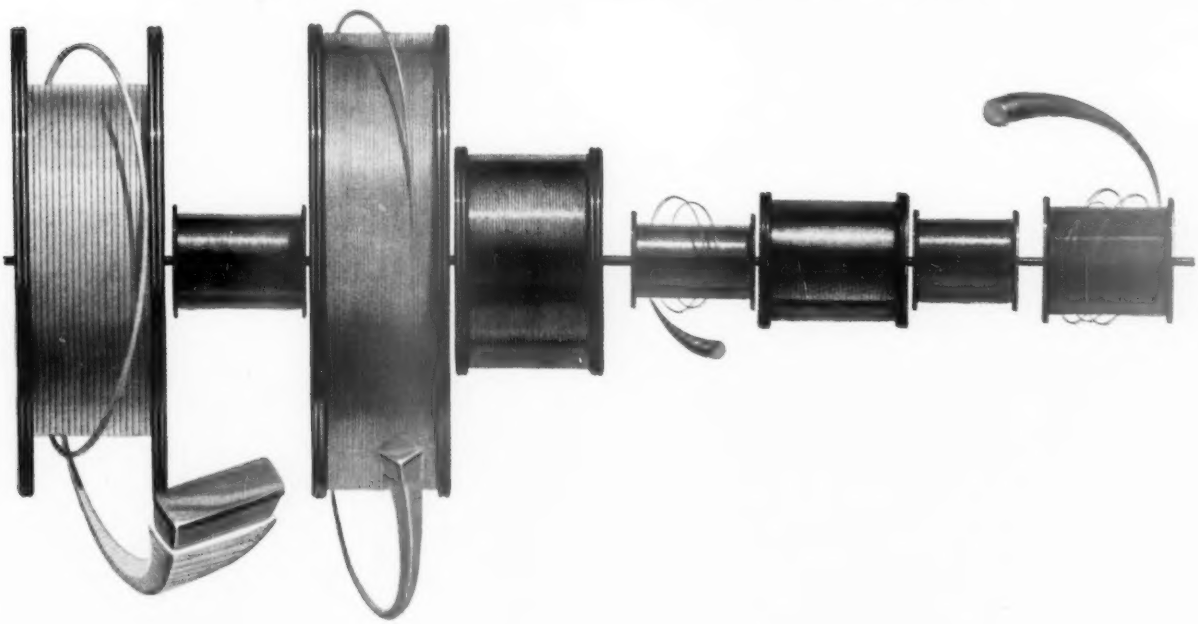
For storage of oil and water at offshore drilling sites, U. S. Rubber Co. has developed **underwater tanks of fabric covered by synthetic rubber.** Hanna Construction Co. of Houston, builder of offshore drill rigs, helped develop the tank system. Each cylindrical tank holds 50,000 gal.; its fabric is said to be impervious to salt water and to marine organisms. U. S. Rubber says the system can reduce offshore storage costs for liquids from $40 to about $25 a barrel.

Stainless steel paint with a life expectancy of 12 years has been developed by the American Electric Power Co. in collaboration with the Debevoise Co., New York paint manufacturer. The new paint, a combination of stainless along with other paint pigments, owes its long life to its glasslike smoothness and its slow chalking characteristics. Customers must, nevertheless, balance this against its high cost, approximately three times that of aluminum paint.



ELECTRIC THREAD, LIFE LINE OF DAILY LIVING . . .

MAGNET WIRE made by PHELPS DODGE



Wound tightly into the core of every electric motor, coil and transformer are countless miles of magnet wire—some even finer than a human hair. These insulated "threads," carrying electricity, create power to operate industrial machines, household appliances and electronic devices. Constant contact with industry's problems, plus an application engineering approach to research, has enabled Phelps Dodge to develop the most widely diversified line of magnet wire in the world.

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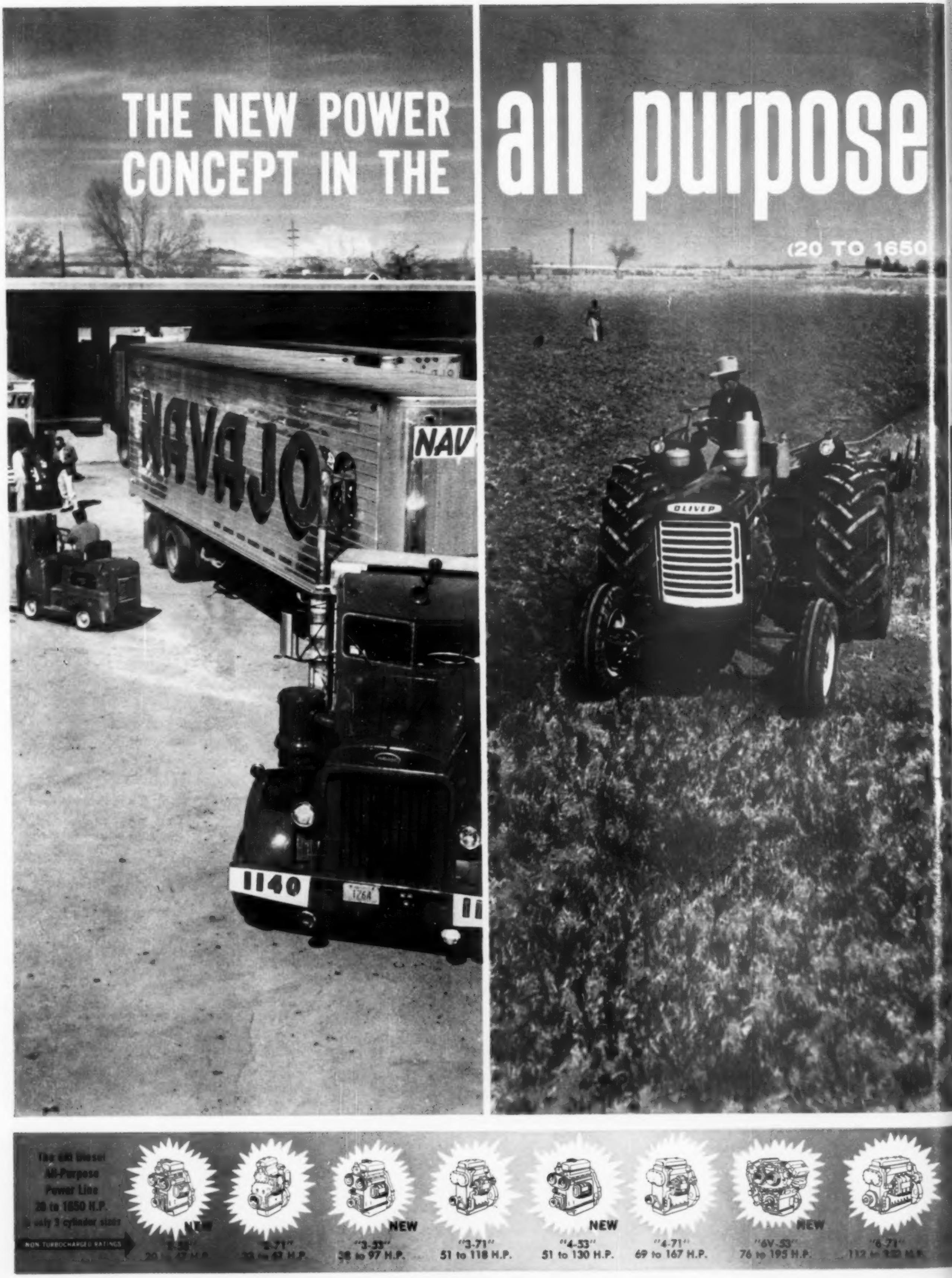
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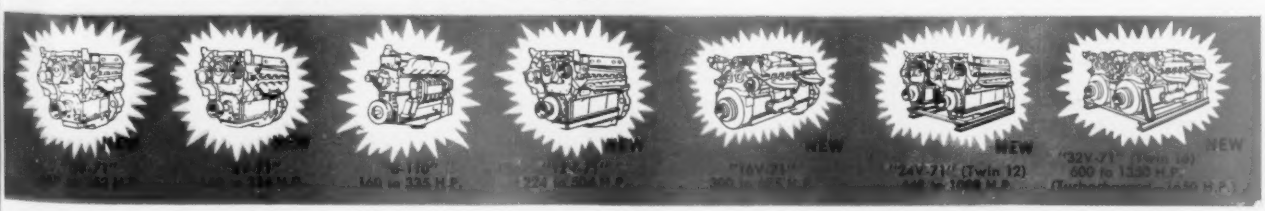
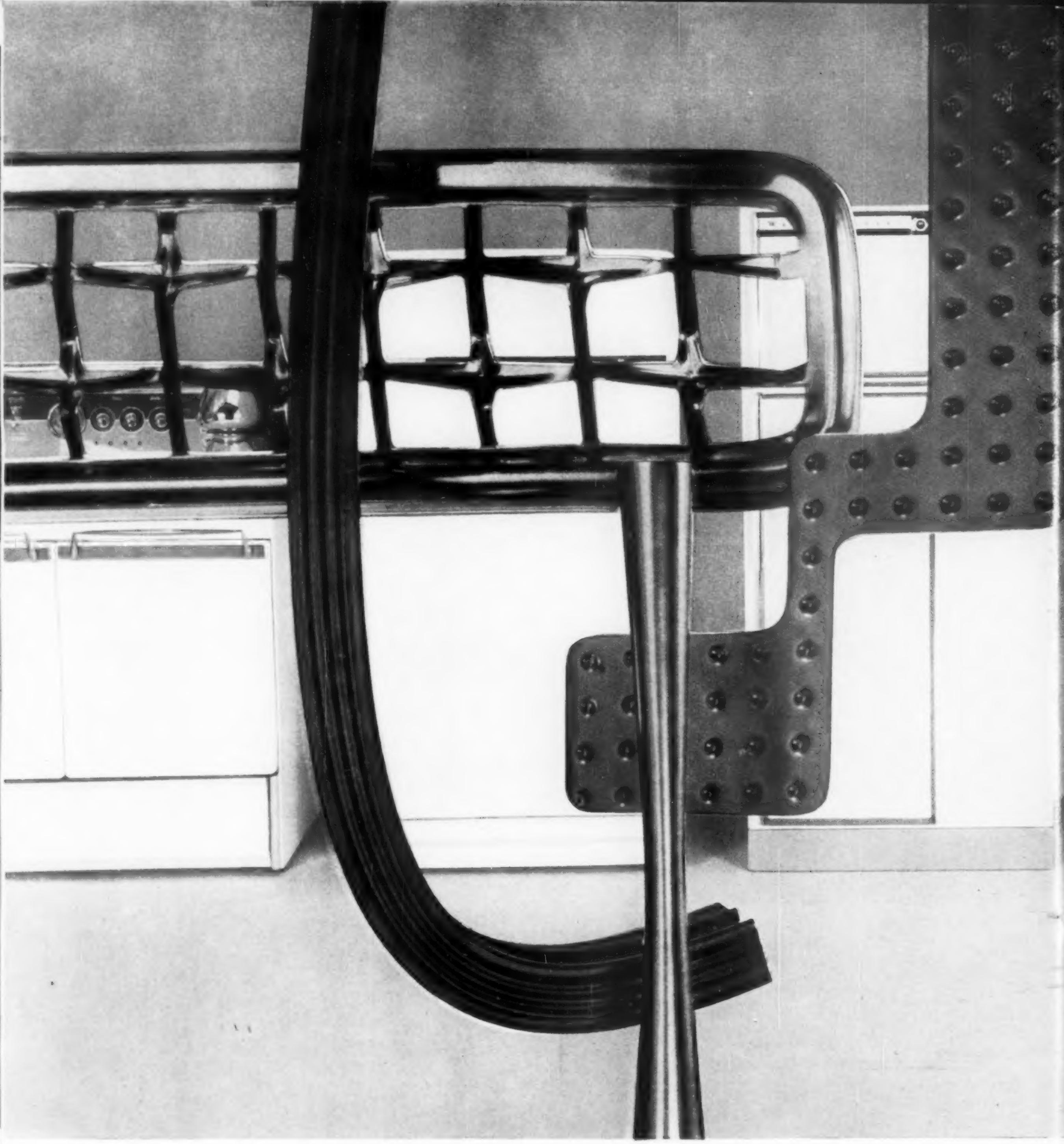
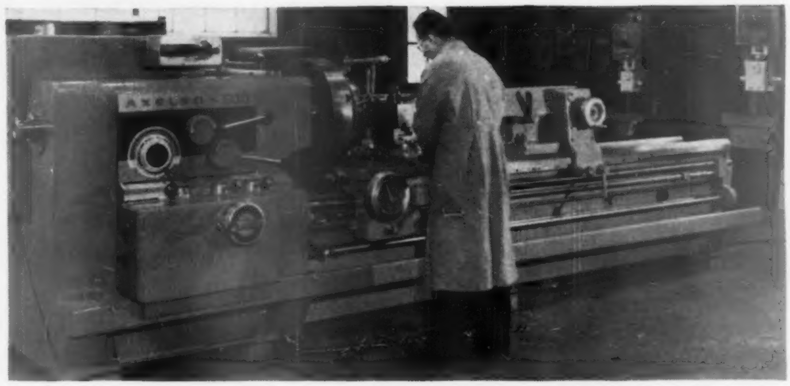
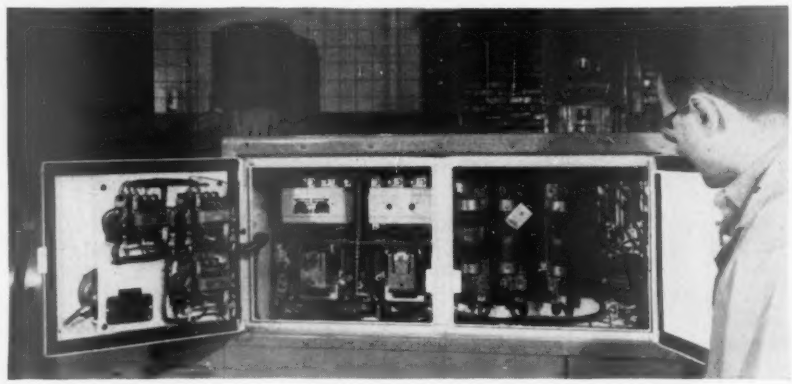






Cleanly Designed New Lathe . . .



. . . Comes Apart in Handy Units

New lathes generally are just new lathes, but this new U. S. Industries model is earning special marks from metal workers for its functional design. A lot of the credit for its clean-cut appearance is due to U. S. Industries' engineers who took the time to completely rethink what an engine lathe should be.

Much of its appeal to customers springs from its building-block design. Its drive and control units, bed, and electrical controls are all detachable, making it easy to dismount these units for repairs or for changing the machine to a different metal-cutting job. Combining the drive mechanism and machining controls in a separate unit makes it possible, for example, for a user to install a larger or a smaller lathe bed at a later date.

Manual machining controls can be changed for a power-assist or full power shifting at relatively low cost.

The new lathe, which offers a choice of 40 speeds up to 2,000 rpm., was designed to take advantage of the faster cutting techniques made possible by the newer carbide and ceramic cutting tools that are needed for the aircraft and missile superalloys. With this in mind, too, the lathe bed is of welded steel rather than cast iron. This change, U. S. Industries claims, makes the bed 18 times as rigid.

The new lathe, manufactured by Clearing Div. of U. S. Industries, costs $17,783 with a 12-ft. bed. The motor is extra.

Magnetic Amplifiers For New Rectifiers

New electric power control packages developed by Fairfield Engineering Corp., Springdale, Conn., promise to increase the usefulness and the market for silicon controlled rectifiers (SCRs).

The SCR is the tiny semiconductor device developed by General Electric that acts both as a valve to control the amount of current flowing and as a rectifier to let the current flow in only one direction (BW–Dec.28'57,p144). It can handle over 2 kw. of power more efficiently and reliably in many applications than equivalent devices like the

thyratron, a gas-filled electron tube much larger than the SCR. It can operate motors and servo-mechanisms and supply direct current in such applications as electroplating systems, which demand controlled amounts of current.

The SCR itself must be actuated by a small current, and electrical engineers are trying to find more efficient ways to provide this current. One is a special kind of transistor called the unijunction, also developed by GE. A year ago, Fairfield Engineering came up with a new actuating device, an adaptation of an old electric standby, the magnetic amplifier. Its new power packages include magnetic amplifier controls for the SCRs.

• **Advantages**—A magnetic amplifier and its circuitry are cheaper than a unijunction and its circuitry, but a transistor package is much smaller. The magnetic control may be better for complex applications than a transistor control because it needs less wiring and can accept more easily several electrical input signals.

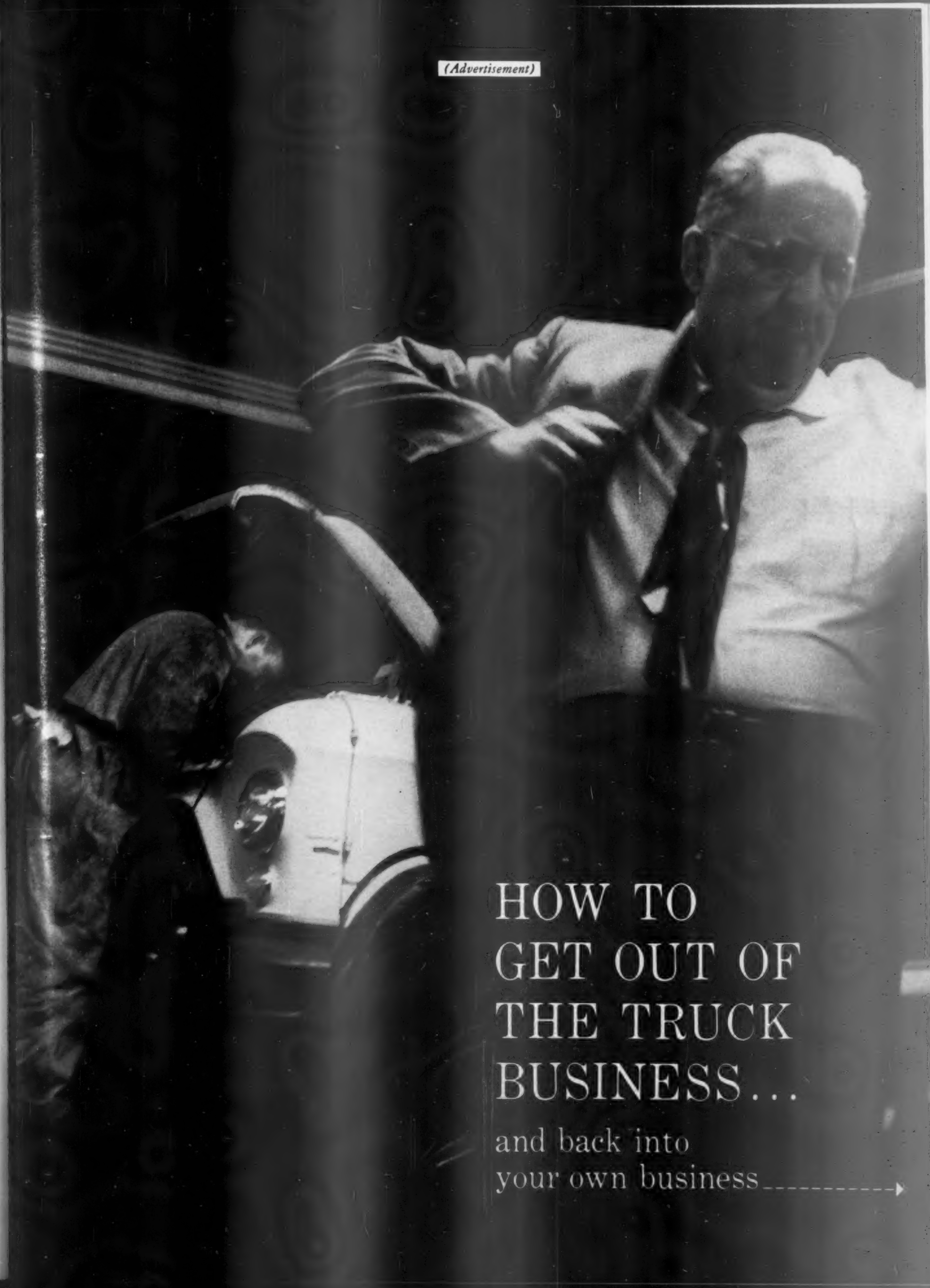
GE itself so far is making only unijunction transistor controls for SCRs. It asked Fairfield to develop a magnetic amplifier control because of Fairfield's work on magnetic controls for thyratrons. GE provided SCRs for Fairfield to work with, but Fairfield paid for the rest of the development costs itself and is applying for patents on its power control packages.

• **The New Devices**—One of the two new power control packages is a general purpose device that can take four separate input signals and put out alternating current or full-wave direct current, depending on how the two SCRs are connected. It costs about $275. The other is a special purpose device for 1-hp. servomotor applications, containing six SCRs, delivering a.c. or d.c., and selling for about $2,500.

Light Control System Reduces Power Costs

A new light control system does for office lighting what a thermostat does for heating. A "Lumistat" dial is set for desired amount of room light, and a separate photo-electric scanner measures the combined daylight and artificial light in the room. This information is sent to a signal station which compares the reading to the Lumistat setting; if the two differ, signals go to a motor-driven transformer which dims or brightens the lights by controlling the voltage applied to the lamps.

This "Luxtrol" system will work with either incandescent or fluorescent lamps. The manufacturer, Superior Electric Co., Bristol, Conn., says factory tests indicate savings up to 50% in power costs. Price, $210.00. **END**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Take a close look at this picture. It shows the typical requirements of a five-truck fleet: the trucks, which tie down a sizable capital investment and the personnel and equipment needed for maintenance, dispatching and bookkeeping. Not shown, but very real, is the high cost of depreciation. This is the terrific attrition the average company pays for truck fleet ownership. These are the problems that are solved by Hertz leased trucks.

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INTERNATIONAL OUTLOOK

BUSINESS WEEK

MAY 30, 1959

A BUSINESS WEEK SERVICE

Britain has just signed a five-year trade agreement with the Soviet Union. The deal will help give Moscow quick access to the West's technical knowhow.

Biggest items on the Soviet shopping list will be capital goods, including complete plants for making consumer goods and for processing foods. The Soviets also will buy consumer goods (textiles, medicines, shoes, toys) and motor vehicles. Britain, in return, will take some Soviet-built machinery, cars, and cameras, besides larger amounts of commodities.

During the first year of the agreement the British may hike their imports from Russia by a third. Russia's buying in Britain may rise even more. The Soviets talk about possible orders of $2-billion over the next five years. The British put the figure much lower.

Main problem during the Moscow trade talks was how the U.S.S.R. would pay for the bigger purchases it wants to make from Britain. The Soviets refuse to use much gold, so they started by asking for long-term credit. Finally they agreed to accept five-year credits from British manufacturers. (These are obtained from London banks and insured by Britain's Export Credit Guarantee Dept.) Face-to-face talks between Sir David Eccles, president of the Board of Trade, and Premier Khrushchev helped break the stalemate.

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The Anglo-Soviet trade pact probably won't lead to any spurt in U. S. exports to Russia. Our chemical industry, for one, is opposed to selling equipment and processes to the Soviets.

Then, the Commerce Dept. still takes a dim view of U. S.-Soviet trade. During the first quarter of this year, Commerce turned down most of the applications it got for export licenses to the Soviet bloc. (The applications came to a total of only $21.8-million.)

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Toughest takeover battle since Reynolds Metals won control of British Aluminium (BW—Jan.17'59,p59) is shaping up in London. Charles Clore, powerful real estate and retailing operator, wants control of Watneys, Britain's largest brewery. Clore's plan: build small shopping and office centers around the 3,670 pubs that Watney's owns throughout the country. In his first bid for control, he has offered $60-million in cash.

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There's growing interest in London, strongly backed by Sweden, to get a "little free trade area" operating between Britain, Switzerland, the Scandinavian countries, and perhaps Austria and Portugal. Officials from these countries will meet soon to set a timetable for rapid tariff reductions among members. All are worried the way the six-nation Common Market is picking up steam.

Britain sees the new scheme as a temporary answer to the Common Market's refusal to join in a broader Free Trade Area. Idea is to lower tariffs in the "little free trade zone" at a faster rate than that scheduled for the Common Market.

The British figure this would strengthen their bargaining position if

BUSINESS WEEK
MAY 30, 1959

negotiations ever start again between the two groups. Also, it would mean that later talks wouldn't stumble over widely differing tariff rates.

Washington doesn't think much of the new scheme. U. S. officials would like to have everyone outside the Common Market working together to keep it from becoming a protectionist club. The best way to do that, say U. S. officials, is to strengthen GATT (General Agreement on Tariffs and Trade).

Since Washington once favored the British-sponsored scheme for a large Free Trade Area, **this may look like a change in policy. But our trade experts say it isn't.** Here's their argument: If the original British plan had been accepted, there would have been no chance for the Common Market to go protectionist. But the original FTA is dead. And the "little free trade area" is likely to be just another exclusive trading bloc.

—•—

Soviet Premier Khrushchev is making an extended visit to tiny Albania —apparently to put new pressure on the West just when negotiations at Geneva are entering the crucial stage (page 30).

Khrushchev could be using Communist Albania as a meeting place to discuss Soviet bloc economic policies. But his long-range goal on this trip—as some U. S. observers see it—is to set the stage for building more Soviet military power in an area that's vital to NATO.

The day he arrived in Albania, Khrushchev talked about missile bases there—if Italy and Greece accept missiles from the U. S. This is an open threat to weaken NATO's southern flank.

Of course, **Soviet military bases in Albania would take years to build.** Albania is a mountainous, backward country with few roads, little skilled labor, and no borders with satellite countries directly under Moscow's control.

But even the threat, if it reaches the stage of a Soviet-Albania agreement, would have wide repercussions. Italy would not take it lightly. The Italian government already is leery about stationing NATO missiles on home soil.

Before long, Khrushchev will be shifting his sights to Scandinavia, where Norway and Denmark form NATO's northern flank. The Soviet Premier is due to visit these two countries, plus Finland and Sweden, about mid-summer.

But in Scandinavia he will emphasize peaceful coexistence—the expansion of trade and cultural ties. Still, he won't try to conceal that his ultimate aim is to neutralize the whole of Scandinavia.

Meanwhile, the Communist push in the Middle East seems to be slowing down. In Iraq, a key target, Moscow is marking time for the moment.

That's partly because Kassem is trying, even if half-heartedly, to keep his government free of complete Communist control. **In addition, Moscow wants to quiet the campaign Iraqi Communists are waging against Pres. Nasser of the United Arab Republic.** Otherwise, there's some danger that Nasser will loosen his ties with Moscow and move closer to the West.

In Washington

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Both Versions of Wheat Bill Leave Administration Unhappy

Rival stopgap wheat "reform" bills–one sponsored by the Senate, the other by the House–appear headed for Presidential veto. From the Administration's viewpoint, neither bill answers its demand for drastic action to curb the rising surplus of wheat, in which the government soon will have about $3.5-billion invested.

The Senate bill provides higher price supports in return for smaller production of wheat in 1960 and 1961. A farmer could have federal guarantee of 80% of parity support ($1.89 a bu.) if he cut back plantings by 20%; 75% of parity (the current level, or $1.81 a bu.) for a 10% reduction in planting; or 65% of parity ($1.52 a bu.) if he planted his full share of the 55-million-acre national allotment required under existing law.

The House bill offers wheat farmers a national referendum to choose between (1) a 25% reduction in the national acreage allotment, coupled with a rise to 90% of parity (about $2.12 a bu.) in the federal support; or (2) elimination of all acreage controls and 50% of parity support (about $1.18 a bu.).

• • •

High Court Takes Up Truck Mudguards, Kills Special Illinois Requirement

The U.S. Supreme Court this week unanimously struck down a 1957 Illinois safety law that required trucks and trailers operated on state highways to use a contour-shaped mudguard on rear wheels. This provision outlawed in Illinois the use of the conventional, straight mudflap that is legal in at least 45 other states.

The court said the law placed an unconstitutional burden on interstate commerce because of the cost of installing the special mudguards and the interference with "interlining"–by which trailers on long hauls are interchanged between carriers serving different areas.

In other actions, the court:

• Ruled that a San Bernardino (Calif.) drive-in theater is **entitled to a jury trial of its triple damage claim charging an illegal conspiracy between Fox West Coast Theaters, Inc., and the latter's distributors to monopolize first-run motion pictures in the area.** The theater counterclaimed for triple damages after Fox had sued to have its first-run contracts declared legal and to stop the new drive-in from disrupting its contractual relationships by threatening antitrust litigation. Lower courts decided to hear the Fox suit first, but the Supreme Court now says the jury trial of the triple damage counterclaims must come first.

• Dismissed an appeal by Crown Zellerbach Corp., thus **in effect upholding a Washington state tax on Crown Zellerbach's receipts from products manufactured in the state.** The company argued the tax was unconstitutional on the ground it was based on the value of products shipped in interstate commerce.

• **Refused to hear an appeal by Los Angeles County in another tax case.** California courts had ruled Los Angeles could tax airplanes operated out of Burbank by Flying Tiger Line, Inc., only on the basis of the time the planes are actually in the county.

• • •

ICC Sympathetic to Rails' Problems, Suggests Tax Relief and Self Help

After a three-year study, the Interstate Commerce Commission has concluded that the railroads' passenger hauling operations are a real problem.

It suggests remedies ranging from local and federal tax relief to a bigger share of Defense Dept. passenger business for the roads. But at the same time, ICC says the railroads should "take steps to eliminate duplicate passenger trains, terminals and other facilities" as far as possible. **There is little evidence, the commission also notes, of aggressive railroad promotion of its passenger service compared with that done by airlines and buses.**

• • •

Chances for Housing Bill Improve As Democrats Prepare to Compromise

A conference committee this week settled down to compromise differences in the House and Senate versions of a housing bill. Both versions agree on the one thing that Pres. Eisenhower needs and wants most–$10-billion of new mortgage insurance authority for the Federal Housing Administration. Beyond that, they differ on most things.

Observers feel that Eisenhower could reluctantly sign a compromise bill that strikes out the loan program for housing for the elderly, limits public housing authorization to the Senate's 35,000 new units figure, makes some moderate concession on the rate for urban renewal spending, and includes the Senate's $300-million for college construction loans.

• • •

AEC Comes Through With Clearance For Atomic Plant Already Started

The Power Reactor Development Co.'s $44-million atomic power plant now under construction near Detroit finally has received formal building clearance from Atomic Energy Commission. The plant is being built by PRDC and Detroit Edison with government cooperation.

But AEC warns that the 100,000-kw. fast breeder reactor, expected to be completed by August, 1960, will not be granted an operating license until further safety studies and hearings are held.

The AEC decision, which reaffirmed an earlier ruling, was protested by three unions as unrealistic since it postpones the final conclusion on the reactor's safety until after the plant has been built.


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Showdowns in AFL-CIO Rift

Meany abandons delaying tactics, brings to a head two clashes between craft and industrial unions. He wins both times, with some support from ex-CIO leaders.

The biggest threat to the life of the merged AFL-CIO has always been the internal rivalries of its powerful unions. The united "House of Labor—after 3½ years—is still badly divided over craft and industrial union conflicts.

Until last week, AFL-CIO Pres. George Meany worked cautiously to smooth over the conflicts—putting off final decisions that could have started some unions heading toward the exit of the federation's Washington headquarters.

But when AFL-CIO's ruling executive council met last week, the truce ended. For the first time, Meany brought conflicts to a test, in a way important to the future of the federation.

• **Two Cases**—Two jurisdictional cases, important in themselves, may reflect what's ahead for AFL-CIO's unions. Both decisions, under Meany's pressure, went in favor of craft unions and against the positions of the federation's two top industrial union leaders—Walter Reuther and James B. Carey.

In fact, Meany succeeded in denting the solid CIO position. In the decisions, several ex-CIO leaders voted with Meany and the craft unions.

• The council voted against the claim by Carey, president of the International Union of Electrical Workers, that his union could rightfully challenge the Sheet Metal Workers at a Long Island manufacturing plant. Nevertheless, the IUE president said at midweek that the union won't withdraw from an election at the plant next week.

• The council chose to table, temporarily, a recommendation giving the Metal Trades Dept. a significant victory in its demand to continue organizing against the federation's industrial unions. But, a vote last week would have gone against the mass production unions.

• **First of Many**—These were the first of many craft-industrial union contests sure to be appealed to the top-level executive council. Until last week, most had been settled in lower-echelon negotiations. These two would not have been brought up without Meany's prodding.

In doing so, Meany developed some new troubles. Carey, who made no secret of his intention to ignore the council's decision, heatedly challenged the federation to "throw us out."

Reuther, who has led the industrial union fight with the Metal Trades Dept., did not take issue with the pro-crafts sentiment but sought further negotiations to tone down any decision for the Metal Trades.

The age-old craft-industrial union conflict was given new urgency by the AFL-CIO merger in December, 1955. Craft and industrial unionism were brought under one roof. Problems arose immediately. While the federation found no quick solutions, it did set up a series of agreements that bar member unions from raiding one another.

Both of the situations that came before the council last week involve raiding charges. Both had been discussed before but not formally, with a demand for stern council action.

• **IUE vs. SMW**—The 29-member council spent two full days in debate over Carey's case. He demanded that his IUE members be allowed to try to wrest plant representation rights from the Sheet Metal Workers in a National Labor Relations Board election next week. The Sheet Metal Workers has represented 700 workers at Belock Instrument Corp., Long Island, for the past two years.

A report to the council—written in part by L. S. Buckmaster, president of the former CIO Rubber Workers—went against IUE. Carey also lost a decision from AFL-CIO's impartial referee in raiding cases, David L. Cole. But Carey insisted that he was not illegally raiding the Sheet Metal Workers because the craft union had signed a "collusive" agreement with the company.

In the voting on the council report, Carey's CIO associates sided with his request for further investigation, but lost in the second vote, on Cole's findings. All ex-CIO leaders except National Maritime Union Pres. Joseph Curran voted against Carey and in favor of always accepting a Cole decision.

Carey is expected to reject the ruling of the federation's executive council in next week's election. This will again pit him against Meany—but Carey says he doesn't anticipate expulsion.

• **Metal Trades vs. IUD**—The council stand against Reuther's Industrial Union Dept., though it isn't formal yet, could lead to a much broader split. For the past year, Reuther has been insisting that the Metal Trades Dept. has no right to organize against AFL-CIO unions, because the department—as an arm of the federation—should be subservient to the autonomous member unions.

This position was finally rejected in a report written by another ex-CIO union president, Joseph A. Beirne, of the Communications Workers. Beirne, a member of a two-man committee with Joseph Keenan of the International Brotherhood of Electrical Workers, had first taken the Reuther position.

Under Meany's persuasions to reconsider, he ruled that Metal Trades Councils had a right to organize "in the sum of their jurisdictions." This means the craft unions could all continue to appear on the same election ballot and organize, as such, against the industrial unions.

At the heart of this conflict is the surge of the craft unions in production workers territory—the advance of the skilled worker in the automated factory.

• **Corruption**—While the council hotly debated its most troublesome internal issue, it handled several corruption problems without scrapping across the oval conference table. It offered moral—and in one case financial—support to unions involved in organizing and negotiations, and it laid out its legislative strategy on reform proposals for the rest of this Congress (BW—May24'59,p147).

The council members put off one touchy question, the fate of Maurice Hutcheson, president of the Carpenters. Hutcheson made a surprise appearance at the sessions after avoiding them for a year—and offered to have his union and himself investigated by the AFL-CIO.

The council said no, not until a court hands down a decision on charges of Hutcheson's involvement in an Indiana land scandal case. This is expected before next September, when the AFL-CIO convention votes again on members of the executive council.

In addition, the council put off a request by the International Longshoremen's Assn. for reaffiliation. The ILA, expelled from the old AFL on corruption grounds six years ago, currently has close ties with the Teamsters. Meany commented that this doesn't enhance the ILA's prospects of returning.

The federation got one new case: charges that its United Packinghouse Workers has Communists in its leadership. This was referred to a committee for study.

• **USW Backed**—The council offered moral support to the United Steelworkers, negotiating new contracts in New York; its striking Textile Workers Union of America, in Henderson, N. C.; and the troubled International Ladies'

Garment Workers Union—facing an anti-trust suit in New York. It took more concrete steps by voting $20,000 to help its Brewery Workers in contests with the Teamsters.

This was the second direct organizing assault on the Teamsters since the truckers' expulsion. Earlier this year, the council chartered a truck drivers union in Puerto Rico to fight off the forces of Teamsters Pres. James R. Hoffa.

The council voted the funds at the appeal of Brewery Workers Pres. Karl Feller, whose union has been losing ground to the Teamsters. Most of the money will be used in a campaign running in Tampa, Fla.

Unionization Draws a Scowl

Survey shows that four out of five engineers and scientists doubt that organization is their best means for improving salary and status.

Scientists and engineers working for large companies generally do not favor collective bargaining as a means for improving salary and social status. But the opposition of a significant number is not grounded "on principle" and, presumably, would shift "in the event that conditions justified the change," according to a University of Michigan survey.

The survey of more than 250 scientists and engineers in 10 major companies found that only about one in every five of these professional employees approve some form of collective action. About half of this minority think in terms of collective bargaining along union lines. The rest—about 8% of those interviewed—think their professional societies could collect and distribute more information on salaries and other conditions than they do.

• **Active Opposition**—Half of those interviewed in chemical, automotive, electronics, and public utilities research and engineering departments strongly opposed any form of collective bargaining for scientists and engineers. Another large group—about 29%—mildly opposed collective bargaining.

Preliminary findings of the Michigan study were disclosed by Prof. John W. Riegel, director of the university's Bureau of Industrial Relations. According to Riegel:

• There are no significant differences in attitudes toward bargaining between scientists and engineers.

• There is no significant relationship between an individual's performance ratings and his attitude toward bargaining.

• There is quite a strong relationship between how an individual feels about his salary and how he views collective bargaining.

Support and opposition alike were couched in practical terms. "Let's face it," said one of the scientists who favored collective bargaining, "we're all after more money."

• **Fear of Classification**—Those who opposed collective bargaining used the same pragmatic terms, with nearly half claiming that collective bargaining was unnecessary and would offer no advantages. Under it, they argued, salaries and promotions would not reflect the individual's responsibilities, performance, or qualifications. "In a union," noted one engineer, "you would be classified. You would get the union scale. Things are more flexible without a union."

Another professional put it in these terms: "Actually, others do collective bargaining for us. We get all the increases that hourly-rated people get."

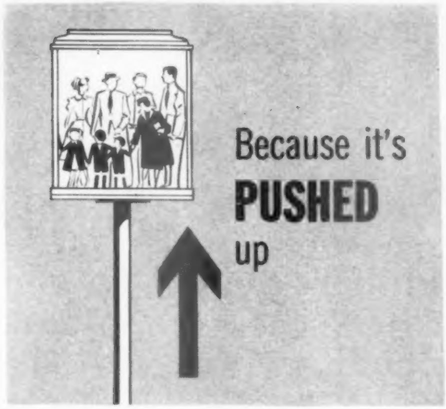
The study found that many scientists and engineers were "highly individualistic and rebelled at the thought of submerging themselves in a mass movement."

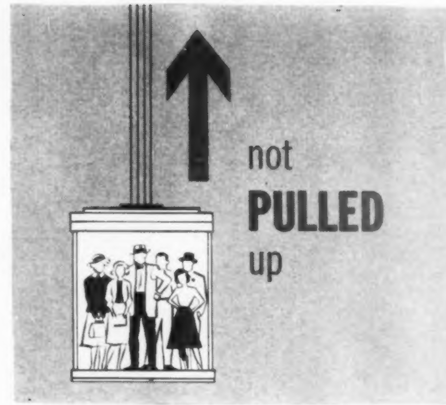
Other objections to collective bargaining included fears that it might introduce "objectionable policies and practices of labor unions," restrict the personal freedom of professionals, impair their relations with management, reduce professional productivity and development, and reduce the status of professionals in their community.

• **Independence**—Among those who favored collective bargaining, none mentioned an alliance of a professionals' union with a manual workers' union, and none indicated a desire to have a professional union as a branch of a manual workers' organization.

"Engineers as a group should have representation," argued one engineer, "but not in the form of a labor organization. For our protection we need something like the American Medical Assn. The organization should not be dominated by top management."

This feeling is widespread among those with a leaning toward collective bargaining, the study found. These were the scientists and engineers who wanted their professional groups to develop machinery for learning members' opinions and for presenting their viewpoint to management. Many in this group would like to see the professional societies engage in collective bargaining. A majority, however, does not. END





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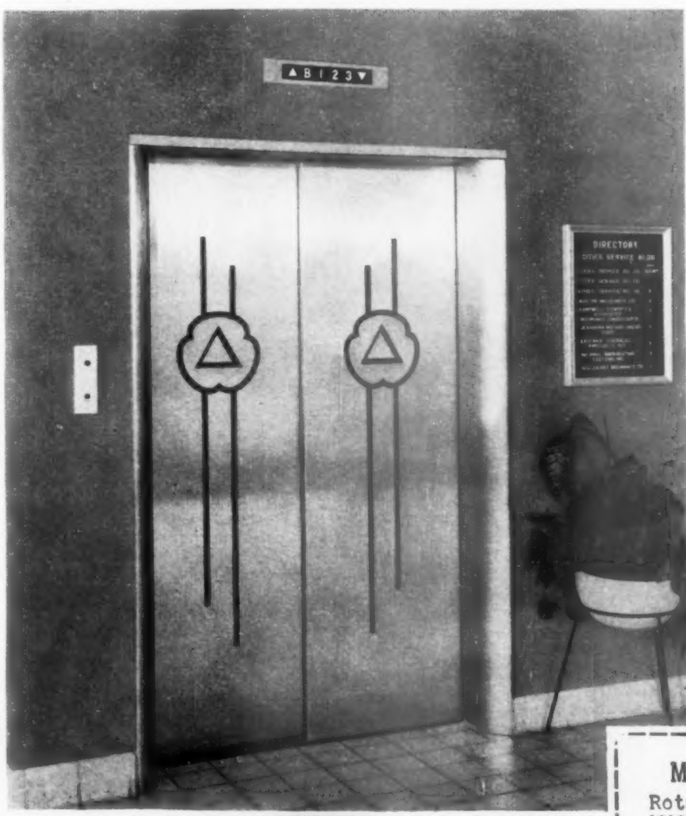

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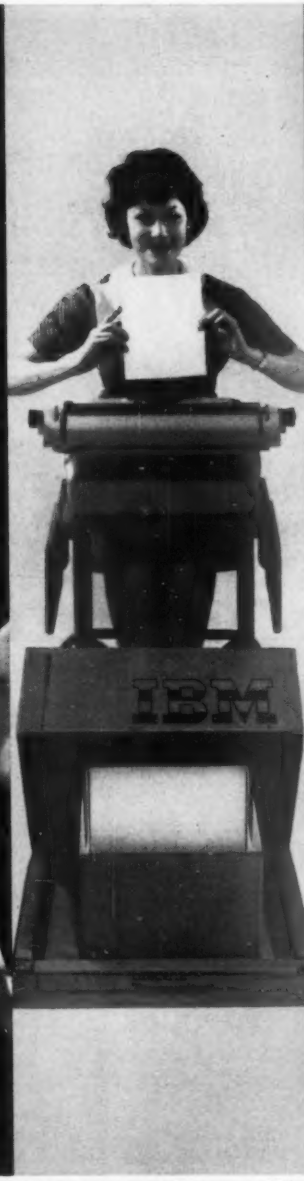

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THE LABOR ANGLE

Pricing the Unskilled Out of Jobs

TWO STATEMENTS by Labor Secy. James P. Mitchell last week directed new attention to the problems of the low-skilled workers in today's high-wage labor market. They raise a serious question: Has it now become too expensive to employ the unskilled?

Early in the week, the Secretary expressed a great concern over the growing difficulty of finding jobs for those with lowest skills and the least training. Unemployment is most prevalent among them today; they account for two of every five workers looking for jobs.

Then, before a Senate labor subcommittee, Mitchell touched on a possible reason for this—the cost of employing the unskilled today. Arguing against a further increase in the federal minimum wage, the Secretary warned that a proposed boost to a $1.25-an-hour level would "result in an extensive curtailment of employment."

Sen. John F. Kennedy (D-Mass.) has introduced a bill that would amend the Fair Labor Standards Act to increase the statutory minimum for pay to $1.25 and extend full coverage of the law—including required premium overtime pay after 40 hours—to 7-million more workers.

THE ADMINISTRATION, through Mitchell, opposes any increase in the $1 minimum at this time, and favors a limited expansion of coverage. The law now covers the wages and hours of about 24-million workers.

The Kennedy proposals are hotly opposed by industry, almost entirely on cost grounds. Estimates of the potential increase in management's labor bill run as high as $3-billion a year. Mitchell warned the Senate subcommittee that the "massive increase in wage costs which would be required . . . simply could not be met by many firms."

Aside from this cost angle, any further rise in the statutory minimum wage should be considered carefully in the light of its possible impact on jobs for the unskilled. Legislation establishing a minimum rate of pay, however justified, is a form of interference with the operation of a normal and competitive labor market. It forces important socio-economic changes in wage and work patterns. Two points should be considered:

- Where minimum wage legislation raises hourly pay above the value of an unskilled job, workers tend to be laid off. The low-income workers expected to benefit from the legislated increase in minimum pay may, in large numbers, be without any income at all. There is little prospect of their being absorbed in today's labor market, with its increased premium on skill and adaptability.
- Employers set higher employment requirements — putting more premium on skills—as pay minimums are priced higher; a man may be hired as a sweeper or porter at $1 an hour, but at $1.25 he must be something more than that. Moreover, employers often find that capital equipment may be substituted for higher-priced unskilled labor.

According to a labor economist, Neil Chamberlain, legislators who vote to set a higher floor under wages "however good-intentioned, may only succeed in making victims of their intended beneficiaries."

Unions, of course, want a higher minimum price set for an hour's work. They concede that some unskilled workers are sure to be squeezed out of jobs—and that some marginal employers will be forced out of business and sounder ones into labor-saving mechanized processes. But, they say, this will be a small loss offset by the gains in "decent" wages.

Earlier this year, unions took sharp exception to a Mitchell warning to Congress on proposed changes in the Fair Labor Standards Act. They denied that a higher minimum would "hurt the economy and . . . result in layoffs, shorter hours, and business failures."

THE LABOR DEPT. concedes that it is difficult to pinpoint the effect of an increase in the wage minimum because other factors may be involved. But, its statistical studies show:

- After the increase in the statutory minimum from 40¢ to 75¢ in 1950, "minor" unemployment resulted in two of five industries most affected—sawmill jobs dropped 2%, in fertilizer plants the decline was 4%. A few employers went out of business.
- The $1 minimum, which went into effect in March, 1956, affected more workers, had a "somewhat greater" impact. Although the economy was rising, employment "tended to decline in the low-wage industries."

Sixteen of 22 industries in the "high impact" group showed drops in employment, between 10% and 25% in some. Moreover, the number of those employed a full 40 hours a week declined sharply, in one industry from 6% of the total before the $1 minimum to 30% afterward.

A study of "other effects" showed the increase to a $1 minimum "stimulated employers to reduce costs through productivity improvements as well as by raising production quotas." In other words, after the increase investments in labor-saving devices rose sharply, production and hiring standards were tightened in a way that cost the least efficient their jobs.

ECONOMISTS in the Labor Dept. —and many outside the government—are convinced that, despite labor's denials, a higher minimum would take a toll of jobs: The higher the minimum set, the larger the number likely to be displaced.

The Fair Labor Standards Act provides that a minimum should be established without "substantially curtailing employment or earning power." Few now disagree with the validity of a public policy requiring a fair minimum set with due regard for its possible impact on employment. It performs a useful purpose in protecting wage standards.

But, there is widespread concern over another rise—above the present $1 an hour—that could set too high a price on the labor of the lowest-skilled, a problem group with little lateral mobility and adaptability, one already suffering from heavy and extended unemployment.

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How Good an Index Is the Dow?

This week, the popular Dow-Jones industrial average was hovering near its all-time high of 640. But with stock prices no longer moving in one direction, there are many complaints that the Dow fails to provide an accurate picture of the trend of the market. Critics say the market as a whole is behaving much less bullishly than the average suggests—though they continue to make constant use of it.

These critics argue that the issues making up the Dow are not a representative group. Moreover, when you look behind the over-all average to the individual stocks in the list, you can see a wide divergence of movement, as the table at right shows.

• **Defense**—This divergence doesn't bother the Dow's defenders. They point out that the index is far from perfect as a guide to the market's over-all performance, but fairly accurate as a rough indicator. Despite the fact that it consists of only 30 issues, they compare it favorably with the more comprehensive Standard & Poor's index, made up of the 500 most frequently traded stocks.

There's no doubt that the Dow-Jones average does reflect major movements and changes in direction. Such was the case during late 1958, for instance, when most stocks were rising; the Dow moved up sharply, too. Now, with as many stocks declining as rising, the Dow may not be so proficient as an indicator of over-all movement but neither is any other index.

• **Biggest Rise**—Critics of the Dow argue that the list doesn't represent stocks the market is currently favoring—or spurning. In particular, they cite the fact that the defensive issues and blue chips in the average—Corn Products, AT&T, General Foods, and Goodyear—have recovered a greater percentage of their declines than any other stocks on the list. But it does not reflect activity in electronics and missiles, which have moved the most.

Defensive issues have done so well because they didn't drop so fast as the more cyclical stocks in the 1957 decline. Then, when the bull market resumed early last year, heavy buying of defensives pushed them past previous peaks more quickly. So the Dow's rise from its 1957 high of 525 to 635 at the moment is largely due to the excellent showing of this portion of the list—and not to what has been most notable about the market in that period.

About a third of the stocks on the list were selling this week below the levels of the 1955-57 boom. The poorest performer of all is Standard Oil (N. J.), which lags far behind its old high.

What's Happening Inside the Dow-Jones Average . . .

	1955-57 HIGH	1957 LOW*	PERCENT DECLINE	PRICE MAY 25 1959	PERCENT INCREASE	PERCENT OF DECLINE REGAINED
DOW-JONES INDUSTRIALS	521	420	19%	632	50%	210%
Allied Chemical	129½	68½	47	116¼	70	78
American Can	49⅛	37¼	24	43⅛	16	49
American Smelt. & Ref.	63¾	35⅛	45	48¼	37	46
American Telephone	187⅜	160	15	245¾	54	313
American Tobacco	84¼	69¾	17	98	41	195
Bethlehem Steel	49⅝	33⅜	32	51¾	54	113
Chrysler	101½	52¼	49	68¾	32	33
Corn Products	32⅜	*27⅜	15	58½	114	623
du Pont	249¾	160¾	36	256	59	107
Eastman Kodak	57½	43⅛	25	81½	89	267
General Electric	72⅜	56	23	80¼	43	148
General Foods	50⅝	40	21	84	110	412
General Motors	54	33⅛	39	50¾	53	84
Goodyear	95¼	75¼	21	139	85	319
International Harvester	41⅝	25⅝	38	44⅜	73	117
International Nickel	115⅜	66⅜	43	92⅛	39	53
International Paper	144½	82½	43	117¾	43	57
Johns Manville	58¾	34¼	42	55⅞	63	88
National Distillers	29⅜	19¾	33	30¾	56	114
National Steel	80¼	49½	38	88⅜	79	126
Procter & Gamble	57	44⅜	22	80	80	282
Sears Roebuck	40⅞	24⅛	41	45¼	88	126
Standard Oil (Cal.)	59⅞	44⅜	26	55¾	26	73
Standard Oil (N.J.)	68½	47⅜	31	51⅜	8	18
Texaco, Inc.	76½	58⅜	23	83¼	42	138
Union Carbide	133⅜	90	33	144¾	61	126
United Aircraft	80⅜	42	48	61¾	47	51
U.S. Steel	73½	48¼	34	95⅛	97	186
Westinghouse Electric	83¼	52⅜	37	88⅛	68	116
Woolworth	52⅞	35½	33	55⅛	55	113

*Subsequent low following 1955-57 high.

Data: Union Service Corp., BUSINESS WEEK.

Other oil stocks are also suffering, mostly because they climbed so high during the Suez crisis.

• **Despite Itself**—John W. Harriman, economist for Tri-Continental Corp., the nation's largest diversified closed-end investment trust, notes that during the recession the Dow-Jones over-all average dropped 19%, but eight of the stocks on the index declined 40% to 50%, eleven dropped 30% to 40%, and eight 20% to 30%. The average was helped, however, by the defensive issues, which showed only small losses and then started climbing.

So, though the Dow tends to mask wide swings in individual issues, it's apparently often "right for the wrong reasons." Most technicians say the index should not be broken down to its component parts except to demonstrate that today's market is extremely selective. Despite all criticism, they add, Wall Street will continue to equate the state of the market with the movement of the Dow-Jones average. END

Stock Bargains . . .

. . . institutions increase their trading with off-board dealers who buy and sell Big Board stocks.

One morning this week, a trust officer for a large New York bank asked Wall Street's Weeden & Co., a 37-year-old over-the-counter securities firm, for a quote on a 1,000-share block of General Electric common.

On the New York Stock Exchange, the bank could have sold the GE stock for $79,030 after commissions—if the market was active enough to absorb all the shares readily at one price. It could have bought 1,000 GE shares for about $80,345—again assuming all were available at one "ask price."

But this trust officer found he could sell the same number of shares to Weeden & Co—not a Big Board member firm—for $79,375, or buy them for $79,875. In other words, Weeden would pay him $345 more for the stock, or sell it to him for $470 less, than the NYSE could bid or ask.

• **Growing**—This kind of sophisticated but little-known transaction is more and more frequent in today's market. Every trading day, big institutional investors—banks, trust departments, life insurance companies, pension funds, fire and casualty companies, business corporations, mutual funds—are calling any one of a half-dozen firms that specialize in making over-the-counter markets in selected, active listed stocks.

Among these firms are such giant investment bankers as First Boston Corp. and Blyth & Co., Inc., and smaller outfits like Weeden & Co., which devotes much of its energies to these dealings.

For these firms, the buying of listed stocks from investors at higher net prices than can be obtained on the Stock Exchange, and the selling to investors at lower prices than the Big Board can offer, has become a big, and growing, business. They are able to offer a better bargain than the Big Board because they deal in relatively large blocks of stock at one net price without commissions (making the profit on the deal itself), and on blocks of this size can narrow the spread between bid and asked prices.

• **Volume**—Estimates of dollar trading volume are hard to come by. Those in the business are secretive—for competitive reasons—about their dealings and their securities positions. Some do not segregate these dealings from over-the-counter dealings in unlisted stocks or bonds.

But a conservative consensus indicates a yearly dollar volume in listed

stocks of some $2-billion—about 7% of the $33-billion equity trading volume of the Big Board last year. This does not include, of course, the smaller volume of secondary distributions by both over-the-counter and member firm syndicates, which market big blocks of listed stocks off the board.

• **Institutional Push**—The rapid growth of this relatively new Wall Street business is largely another result of the activities of institutional investors—who like to work in big stock blocks. These big investors like the economy of negotiating a sale in one block at one net price without the commission.

There are drawbacks, though. One is that a "print" is not obtained, so a trustee or trust officer does not always have a record of transactions on the exchange that day to demonstrate that he made transaction at the best possible price. Then, too, the number of stocks in off-board trading is relatively small, and even with these, an over-the-counter house might not take more than 500 shares at its bid price or be able to sell more than 500 without going short by selling stock it doesn't own.

For these and other reasons, a number of substantial institutional investors prefer to deal in an auction market—the Big Board. Some prefer to buy in installments on the Exchange floor when prices are falling and sell when prices are rising.

But even if the off-board market is somewhat spotty, the blue chips are there, and the bargain prices are attracting more and more investors. At one point this week, an investor could have bought 1,000 Eastman Kodak shares for $340 under the Big Board price, or sold 1,000 Consolidated Edison for $380 more. Among listed stocks traded over the counter are du Pont, Southern California Edison, Consumers Power, U.S. Steel, and Standard Oil of New Jersey.

• **Big Board Lures**—The New York Stock Exchange—painfully remembering that at one time most bond trading was on the Exchange instead of over-the-counter, as now—has in the past few years developed several techniques to try to keep block sales away from the over-the-counter market. It allows member firms to buy blocks of listed shares off the board either as principals or agents, at less than market price, then put orders through the Exchange as buyers are found. It also allows special offerings, with the stock distributed at the Exchange with commissions waived.

Both institutions and over-the-counter traders, however, say the lower costs of doing business make further growth in private sales inevitable. As of now, Blyth makes a market in 55 of the best-known utility stocks. Weeden lists 50 utilities and over 60 actively traded industrial issues. **END**

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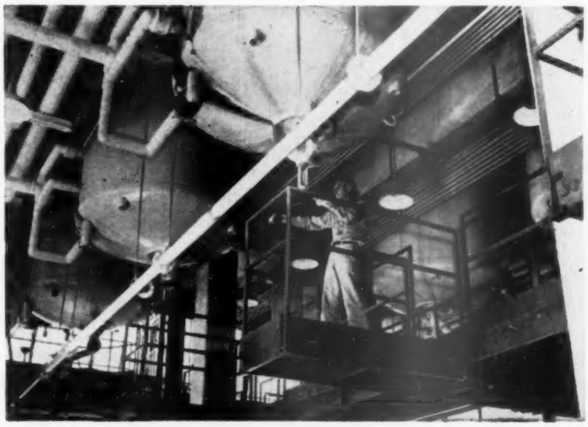

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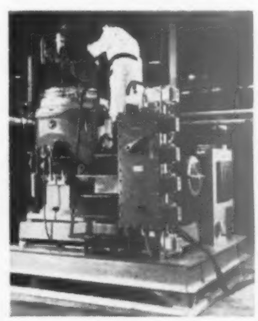

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In the Markets

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Stock Prices Veer Every Which Way In Response to Doubts Over Future

Stock prices this week moved in all directions, while the averages remained in the 630-640 range. This indicated that investors had not decided whether to take profits or to commit additional funds in the hope of a new upsurge.

The short position is at its lowest level in months—a bearish factor to some. But the rails index has moved up—which others are interpreting as bullish for the market as a whole. And there's considerable dispute over what the diminishing trading volume means; most analysts argue it is neither bullish nor bearish.

This kind of uncertainty is typical of a bull market that is at least one year old. In fact, Edson Gould of Arthur Wiesenberger & Co. raises the question whether the market is now in the last phase of a bull market that began in 1949 or whether it has embarked on the beginning phase of a new bull market that will go into the 1960s. Gould suggests that we have not yet reached the new bull market period, and advises a "cautious" investment policy—65% in equities, 35% in cash—to protect against a decline.

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Common Stocks Gain in Importance To Portfolios of the Pension Funds

The impact of corporate pension funds on equity markets is becoming more noticeable, according to the Securities & Exchange Commission's annual pension fund study released this week. In 1958, pension funds poured 43% of their net receipts into equities, compared to 37% in 1957. In dollar terms, this added up to stock purchases of $1.2-billion, against $1-billion in 1957 and $800-million in 1956.

As a result, the SEC notes, common stock investments are mounting in importance in pension fund portfolios. On a book value (cost) basis, stocks were only 12% of pension fund assets in 1951; in 1957 they amounted to 25%, and last year to 27%. But the bull market in stocks has increased the proportionate value of equities even more; based on market value, total stock investments amounted to $9.5-billion at the end of 1958, or 39% of total assets.

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Bond Market Edges Slightly Upward, But Hopes for a Surge Are Slim

The bond market showed some signs of life this week. In particular, the government market, which has been in a steady downward trend, managed to move up somewhat. Dealers cited two reasons for the "rally." The first was that the Treasury is out of the market for the first time in months, which provides a breathing spell. Secondly, they say, there's a "consolidation of losses" by investors who are hoping to make a quick profit on a rise to help counterbalance losses they have suffered.

Few dealers expect anything more than a short-term technical rise. But some hope the bottom may be near. They think the high yields now available on bonds will divert funds from the equity market. And they are counting on a big change in investor sentiment if, as is likely, the Treasury's financing problem becomes less complicated during the next 12 months. But with hints of a new boom in the economy, **most bond men feel a bull market in bonds is out of the question.**

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Pru Wins Long Variable Annuity Fight, But First Sales Still Some Months Away

The New Jersey Senate this week voted to allow Prudential Insurance Co. of America to sell variable annuities—contracts that pay the holders in terms of "units" that fluctuate in money value with the ups and downs of the common stocks in which the underlying assets are invested. New Jersey's lower house had already passed the bill, and Gov. Robert Meyner is expected to sign it into law.

This represents a major victory for Prudential—the nation's second largest insurance company. It has waged a bitter battle for five years against other companies in the insurance industry.

Pru officials said it would be six months to a year before the first variable annuity contracts are offered for sale. The New Jersey insurance commissioner first has to set up rules under which variable annuities can be sold. Then the company will have to write its contracts and obtain permission from the commissioner as well as the Securities & Exchange Commission.

Another problem is looming: Though the variable annuity portion of a company's business is now taxed at the low rates applying to regular insurance, the Pru's opponents are likely to ask for a hike in the tax rates on variables.

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Administration Opposes Frear Bill For Giving Tax Break in du Pont Case

The bill of Sen. J. Allen Frear (D-Del.) to provide tax exemption on income from General Motors stock distributed to du Pont stockholders and other such distributions under antitrust court decrees was opposed this week by Treasury Dept. and Justice Dept. officials.

Testifying before the Senate Finance Committee, they indicated the Administration is not going to support the measure, although they held out hope of reaching some sort of compromise.

Meanwhile, a federal district court in Chicago is readying a decision on whether du Pont must get rid of the stock to comply with the Supreme Court's 1957 ruling that du Pont stock ownership in GM violates the antitrust laws.

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PERSONAL BUSINESS

A BUSINESS WEEK SERVICE

Men's wear this summer, in town and out, will show off more new patterns in cloth than you've ever seen—but with colors subdued. For instance, soft, muted plaids in India Madras cotton will be a leader.

The big long-term trend in men's clothing is to lightweight fabrics that can be worn almost year-round. Most popular today, in the best lines, is the 10-oz. or 11-oz. suit wearable at least eight or nine months a year.

Here are a few hot weather details:

This year's top quality summer suit is an imported silk, usually Italian, featherweight and soft to the touch ($150 to $200). Executives are buying them in navy, charcoal, and in a few small subdued patterns.

Also gaining is a new 55% or 60% Dacron-wool blend that's beginning to outdo the all-wool "tropical" worsted ($75 to $150). This suit is lighter and cooler than the standard tropical (6 oz. instead of 8 oz.), has better crease resistance, better shape. It comes in solids, fine stripes, glen plaids.

Wash-wear suits this season will lean to solids and dark shades, with materials and washable qualities somewhat improved ($50 to $60). For the first time, Brooks Bros. is willing to advertise wash-and-wear instead of wash-press-and-wear.

In finer lines, **some of the best washable blends are 65% Dacron-rayon, 65% Dacron-cotton, 50% Dacron-Orlon, 75% Dacron-rayon-wool.** Informal slack and jacket suits of Dacron-linen are popular, too (especially in black). Acrilan, Kodel, and Zefran also are superior synthetics, gaining steadily.

All-cotton suits—cords and seersuckers—continue to capture the affection of some devoted old-timers ($30 to $35).

For country club wear, **the blue blazer is back**—with brass or silver buttons. This year it comes in black as well as navy, in 100% wool and some fine blends, such as wool-mohair ($75 to $95); in cashmere ($110 to $150). A new switch is the blazer in natural camel's hair ($75).

India Madras sportscoats are plentiful in the better shops ($35 to $50), as are featherweight 8-oz. all-wools using imported Scottish and English cloths ($85). The latter come in small checks, soft plaids, hounds-tooth.

Summer slacks are, once again, mostly solid and in dark tones. One new blend is a 70% wool-silk that comes in subdued, small checks ($55). **Golfing changes the color trend—slacks for the links are showing in washable blues, vivid reds, greens.** For cloudy days on the course, there's a new, silk water-repellent jacket from Switzerland, in navy, tan ($40).

Formal wear for summer is still mostly white jacket-black pants. All-silk jackets ($85 to $135) will be worn with lightweight year-round wool pants. If you like, you can add a dash of color with a plaid tie and matching cummerbund. A new all-black, all-silk tuxedo is gaining some style-conscious admirers ($150 to $200). Evening raincoats—black, all-cotton, with white satin yokes—are new, too ($35).

Hats, shirts, beach wear, even sports shoes, are showing strong in Madras cotton this season, with the plaids soft and subtle, not garish. In hats, the old fashioned "sailor" (now "boater") is reappearing, and now there's a snap-brim version. Some sports shirts will be conventional cotton—but knit cloths will be big. **Light, flexible coltskin sports shoes, in natural tan, are a traveler's item (they crush and pack easily).** Jamaica (longer length) swim trunks will be stylish, as will Madras beach jackets.

Looking ahead to next fall, the "Continental" influence will spread to

even the more conservative men's clothes. This will mean somewhat shorter suit coats with more rounded fronts (at the bottom), semi-peaked lapels, pockets without flaps, trimmer, narrower pants. Topcoats will be shorter, will have fly fronts, and a more fitted, tailored look.

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Some recent IRS actions are worth knowing about:

All travel and entertainment deductions are getting the X-ray treatment this year. Moral: Keep a clear-cut record of all such expenditures for the future. And remember it's quite possible that **there may be a double penalty on closely held corporations if a travel or entertainment expense is disallowed.** Not only would your company lose its deduction for the money it reimbursed you as an executive, but you would be taxed on the reimbursement as if it were personal income.

A bill just introduced in the Senate indicates a possible trend toward abolishing many "luxury" business expenses. Its provisions would eliminate a number of business deductions affecting night club entertainment, theater and sporting events, maintenance of yachts and hunting lodges, gifts, country club dues, and travel to conventions abroad. While nothing may come of it for a while, the proposals probably will be considered during a new tax structure study to be made by the House Ways & Means Committee.

You're due for a tax break if your son plans to work for you during summer vacation. Until now if you required him to use his summer pay for expenses you would normally meet, IRS would not allow you to deduct his salary as a business expense. **Now IRS says that even though your child uses his salary for his own support, in part, you don't lose your deduction for his wages.**

And look for a possible change in the tax status of "gifts" paid to widows of company executives or other employees. Tax experts report the Justice Dept. probably will appeal a recent federal court ruling declaring that $50,000 paid to the widow of a company executive was a genuine gift, non-taxable to the widow. IRS has ruled that such a sum can be tax-free only up to $5,000, in accordance with a 1954 revision of the law. (When a payment of this kind is deemed to be a special gift, and not part of an established company policy—as a morale-builder—the company can not deduct the sum as a business expense.)

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Captain's Club, a new service organization for pleasure boat owners, soon will extend its coverage to include the area from Chesapeake, Md., to Maine. The club inaugurated its credit service earlier this year, but coverage was limited to boating facilities from Jacksonville, Fla., to the lower Florida Keys. Eventually service zones will take in the entire country.

Club membership cards ($20 annually) are honored at affiliated operating docks, marinas, yacht basins, hotels, boatyards, and similar installations. **Also provided are group marine insurance and Diners' Club and oil company credit cards,** in addition to such services as the supplying of port entry sheets and cruising area charts, and check-cashing facilities. Write Captain's Club, 111 East 39th St., New York, N. Y.

Also expanding its similar service for boatsmen is the DCC Credit Card Co., 3232 Westfield Ave., Camden 5, N. J. (cost $5).

PEPSI-COLA'S razzle-dazzle style of promotion reaches peak in its Disneyland, Calif., Old West saloon (above) where . . .

. . . can-can girls (below), comics, and singers put on five free shows a day for entertainment of Pepsi-sipping patrons.

Resurgent Pepsi Gets a New Boss

A lawyer turned marketing man takes charge of Pepsi-Cola with death of Chmn. Steele.

"We've been growing so fast in the last nine years we've hardly had time to get our management into proper shape. But lately we just had to reorganize men and functions to handle the growth. And now I think we've got a team that can do it."

The speaker was Alfred N. Steele, chairman and chief executive officer of Pepsi-Cola Co., talking with a BUSINESSS WEEK reporter a few weeks ago. Now the abilities of Steele's team—and his judgment in selecting it—are due for a major test.

Late last month Steele died of a heart attack. This month, Pres. Herbert L. Barnet, (cover) for years Pepsi's second-in-command, became chief executive officer. Like 22 others of the company's 26 top officers, Barnet was picked for his job by Steele.

• **Same Course**—There are plenty of cases where the death or retirement of the head of a company releases a burst of energy, new ideas, and new methods from among the men who succeed him. But no broad or sudden changes of policies or methods are likely just yet at Pepsi.

As you might expect, Barnet says, "Our goals and principles remain the same." That's only reasonable, for the main goals are to increase sales and income, and the chief principle is to keep the stockholders happy. From the record of the past nine years, there seems hardly a better way to do these things than to follow Steele's ideas.

I. What Steele Inherited

Pepsi was near bankruptcy when Steele took over in 1950. "When I arrived at Pepsi," he used to say, "the other vice-presidents figured I had come to liquidate the company."

In those early postwar years, Pepsi got nowhere while the rest of the soft drink industry gained wider markets. Pepsi's sales in 1949 were \$45-million—just what they had been in 1946. Its profit, in the same time, dropped 70%.

The worst troubles, as Steele put it, were that the company had gotten itself into enterprises it had no business being in. It had sugar plantations that tied up capital yet gave no advantage in getting raw materials; printing and metal fabricating plants that turned out labels and bottle caps. In addition, its marketing ideas were out of touch with the times. Its "Twice as much . . ." appeal was still based on hard times; by the postwar era, according to just about every marketing authority, it should have been urging Pepsi for social self-improvement.

• **To the Rescue**—Since then, Pepsi's sales have climbed threefold, its earnings ninefold. Today, it's ahead of Coca-Cola, the biggest in the business, in a few major markets in the U. S. and abroad and is giving Coke tough competition in many other markets.

But the resurgent Pepsi-Cola is very much Steele's own creation. For much of the last nine years Steele was the man who dreamed up Pepsi's policies and most of its methods—dumping the sugar plantations and the bottle-top plants, changing the pitch of the advertising, even changing the formula of the drink. And it was Barnet—a lawyer for 20 years before he came to Pepsi-Cola—who executed the policies and established some of his own.

• **Lawyer at the Top**—At first glance it might seem bad for Pepsi that a lawyer now has charge of the company—if your impression of the typical corporate lawyer is one of a dull gray man who spends all his time fussing with details. But Barnet isn't that kind of a lawyer. In fact, he quit legal practice soon after he came out of the Army at the end of World War II.

Barnet, 48 years old, has a lot of the

NEW BOSS Herbert L. Barnet, a lawyer turned marketing man, takes to rostrum like any sales executive at bottlers' conventions.

NEW DIRECTOR is Steele's widow, actress Joan Crawford. She has long been crowd-puller at Pepsi conventions and plant openings and will continue attending these.

STEELE'S last job for Pepsi was tour of nation, inspiring bottlers to greater investment in plants, advertising.

salesman's flair: He can occupy the rostrum at a bottlers' convention as well as almost any sales executive. But there's also a touch of the lawyer's anonymity about him: He won't let Who's Who have his biography.

Those prewar years of courtroom work gave him an inside knowledge of Pepsi-Cola, for since the mid-1930s the law firm of which he was a member has been Pepsi's counsel. Still, he considers himself a marketing man.

• **Doubts**—Some key stockholders are not so sure he's the right man to run Pepsi. While they did not oppose his appointment, they say they regard it as an interim one and they prefer Executive Vice-Pres. Emmett R. O'Connell for the top job. Apparently this doesn't worry Barnet. "You can discount that talk . . . I signed an eight-year contract just the other day," he says.

The reason for all this stress on marketing is that in the soft drink business a company generally spends around 30% of its gross to produce the concentrate or syrup that's the basis of its product—and some 60% or more to advertise and market the product. The company spending that 60% most wisely makes the greatest growth. And when growth is rapid, the rest of the business tends to run smoothly. That's because the business depends at a few vital points on the confidence engendered by growth.

II. Defining the Problem

One of the most important of those points is among the franchised bottlers. In Pepsi's case there are some 500 of these franchise holders. All but a few are independent operators; if they have any shareholders, they're restricted to the bottler's own family or a few of the better-heeled men in town. Between them, the bottlers spend at least as much and usually a good deal more than the company itself in advertising

Pepsi. (This year's ad budget: parent company, \$10.9-million; bottlers, \$20-million.) In their major business decisions—advertising, plant expansion—they're open to plenty of persuasive pressure from the parent company, but ultimately they make the decisions.

When the parent company ceases growing, the bottlers lose their confidence, and the whole business starts declining faster and faster. The best of the bottlers get fed up; since they're usually independent local businessmen with no institutionalized company to care for, they sell out.

• **Move to Pepsi**—This is pretty much what had happened to Pepsi when Steele quit his job as marketing director of Coca-Cola and took over at Pepsi in March, 1950. To turn the company around, he had an untouched \$5-million line of credit with a group of banks, and he quickly got another \$6-million from the sale of Pepsi's sugar plantations in Cuba.

He got rid of—or at least negotiated the departure of—most of Pepsi's old management. Some of these he replaced with men who followed him from Coca-Cola. Steele himself never talked publicly of his reasons for quitting Coke. Probably the best explanation is that he was too ambitious and uninhibited a man to work under Coke's relatively quiet, reserved management, headed then by Chmn. Robert W. Woodruff.

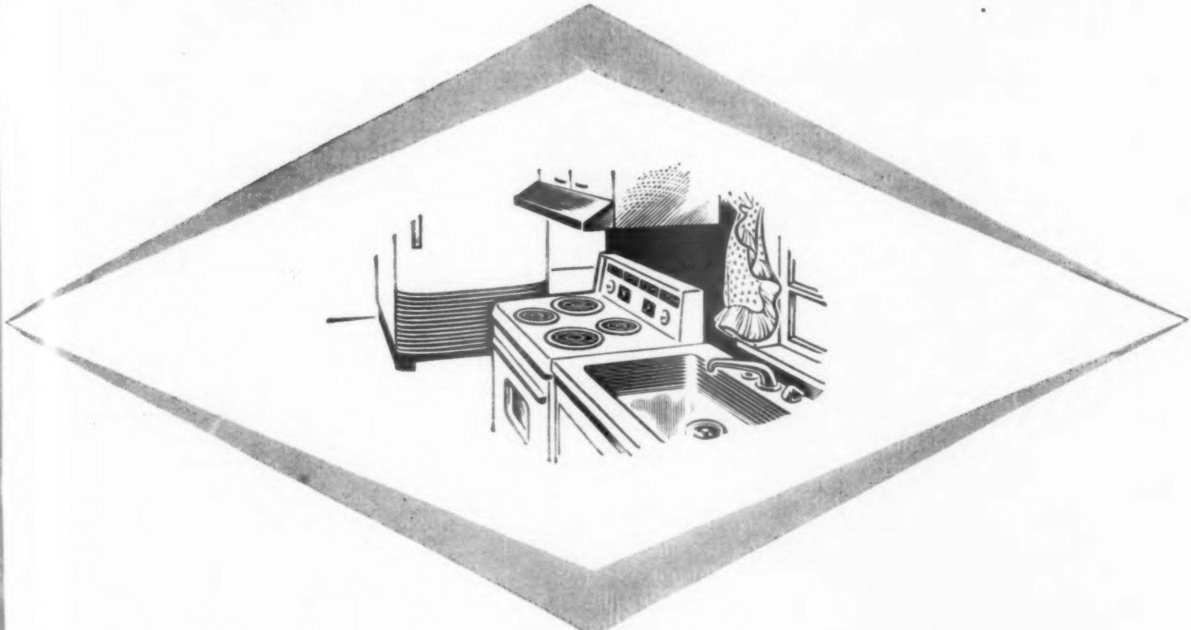
Steele changed the formula of the drink to make Pepsi-Cola less sweet, bought up the franchises of several bottlers who were doing a poor job in some of the major U.S. markets and took over those territories directly; he hired a new ad agency and added new marketing people to his own staff.

• **A New Image**—Sales and profits jumped, but not for the better part of four years was even the flamboyant Steele ready to say that the gains—some 65% in sales, and a more than fourfold climb in profits—were solidly based.

Giving the drink a new image produced part of the climb in sales: Pepsi's advertising sheered away from the "Twice as much . . ." gambit to one that stressed its acceptability on all sorts of occasions—not just at shift-change time. The advertising even showed wedding parties quaffing Pepsi in preference to champagne. Getting it into different outlets added to the gains: Take-home sales from supermarkets and corner groceries spurted under the influence of the new advertising.

The main problem from management's standpoint was to regain the confidence of the bottlers. Their sales climbed as fast as the parent company's. They began putting more into their plants and into their own adver-

Next time you go into the kitchen...



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tising. More promotion bred more sales, and so the circle spun on. But not without some bumps.

III. Inspiring the Bottlers

Pepsi today is its own bottler in 22 major markets in the U. S. The reason for this, Steele used to say (and he's echoed by Barnet) is that bottlers who are independent businessmen and accountable to no shareholders are too often likely to get fat and lazy when they serve large and fast-growing markets. "In a rich market," Steele used to say, "they'll make a lot of money and pretty soon they'll sit back and say: 'This is enough, why should I work so hard for the Internal Revenue?' "

For that reason Pepsi's own bottling companies hold the franchises in such major markets as metropolitan New York, Houston, Philadelphia, St. Louis, Pittsburgh. And in most such centers, it intends to keep the franchise.

• **Gambling's Foe**—In some other U. S. markets it has trouble getting the kind of bottler it seeks. Las Vegas, for instance, is a market that's important beyond its own confines. It is a sampling center, because sales to tourists there breed more sales in other markets. But until a few years ago Pepsi's franchise holder in Las Vegas was a man who regarded gambling as a deep sin. He wouldn't enter a gambling saloon. Nor would he permit his salesmen to do so.

You could get Pepsi-Cola only in the grocery stores or gas stations. It took more than a year of negotiating to persuade the bottler to sell out and try some other business.

• **Pepsi's Persuasion**—Pepsi's franchise agreement with its bottlers says the bottlers must push sales vigorously within their territories. The company usually relies on persuasion, not legal pressure.

In the last couple of years, it has induced the bottlers to invest $15-million a year in soft drink vending machines. Sales through supermarkets and other stores still form the bulk of the Pepsi bottlers' business, but since 1956 their sales through vending machines have increased from about 5% to 11% of their business.

Pepsi, working through a group of New York banks, developed a financing plan to help push this vending machine drive. The banks lend the money and Pepsi guarantees to buy the machine if the bottler defaults. The machines cost from $500 to $1,000 apiece. But the bottler makes no payments for six months after he gets his machine. So, if he places the machine artfully, it will already be paying off at better than the 6% loan rate.

• **Virtual Guarantees**—On bigger operations—setting up a new plant, for example—Pepsi doesn't guarantee loans to its bottlers, but when a bottler takes

over a new territory or seeks loans for expansion, Pepsi's field men sit alongside the bottler when he goes to see his banker. Though they may make no commitments, their presence alone can help a banker decide. For some small deals, Pepsi lends to the bottlers; but it has less than $4-million on loan this way.

Lately, Pepsi has been preaching the advantages of new financial arrangements to its bottlers. Some 25% of its 500 domestic franchise holders today hold their plants through sale-leaseback agreements. This frees the bottlers' capital for further expansion.

None of Pepsi's domestic bottlers grosses less than $100,000. Pepsi is understandably cautious of talking about how high those profits go and what the average net is among its bottlers. It's less inhibited about the profits some of its overseas bottlers make.

IV. Foreign Riches

Steele used to talk with pride about the money made by Pepsi franchise holders in Venezuela. Probably they clear the biggest percentage profit of any among the bottlers. A syndicate of eight, operating out of Caracas with plants in half a dozen other centers in Venezuela, put up $2.5-million as its initial investment less than 10 years ago. Since then, the eight have plowed back about another $9-million from their earnings. And for the last few years they have split among themselves some $1-million a year after retained earnings—and taxes.

The Venezuelan syndicate sells 20-million cases—480-million bottles—of Pepsi a year, more than four times Coca-Cola's sales in that country, the company claims. This record is the result less of a deliberate Pepsi program than of the syndicate's policies; they have steadily reinvested earnings to get the most from Venezuela's sweeping development in the last decade.

• **Overseas Campaign**—Venezuela alone accounts for 12.5% of Pepsi's total overseas sales of 160-million cases a year. So for the last few years Pepsi has been pushing vigorously for sales elsewhere overseas.

The chief reason for the drive: Pepsi's domestic sales—246-million cases a year—swing 28% between summer and winter. There's no way to iron out this seasonal variation except by promoting Pepsi sales in countries where it's summer when it's winter in the U.S.

Even in its darkest days in 1949, Pepsi did relatively well overseas—its sales and competitive position against Coca-Cola remained better there than in the U.S. In early 1950, Coke's international sales ran 4 to 1 compared with Pepsi's; domestically they were about 5 to 1. Today, Pepsi claims, both

domestic and foreign sales run a little less than two bottles of Coke to one of Pepsi.

• **Steele's Mission**—The drive for more foreign sales was among Steele's biggest interests in the last few years. Since 1956 he had spent months on end out of the country, persuading established foreign bottlers to expand and setting up new territories and new franchises. His persuasion began paying off in faster expansion last year, will pay off even faster this year when 30 new Pepsi plants will open.

Steele and Barnet had worked out the tax angles in overseas business, and about three years ago they opened in Bermuda one of their nine overseas concentrate plants. It ships concentrate to bottling plants in the sterling area and to some markets in South America. In Bermuda's international free port area, a company pays no income tax so long as its plant's product is not sold in Bermuda itself. Pepsi saves about $1-million a year by shipping Bermuda-made concentrate to sterling area bottlers, rather than making the concentrate in plants nearer the bottlers.

There are still some large and potentially lucrative territories that Pepsi has yet to exploit. It doesn't have bottlers in Italy, France, Switzerland, or Austria, for example, and only this year has it moved into Argentina. Of the 78 foreign countries in which it does sell, it claims to top Coca-Cola's sales in about 20.

V. Geared for More Growth

It's for growth in areas like these, and for more thorough coverage of the domestic market, that Steele reshaped the company in the last two years.

Says Barnet: "We've reached the point where the reorganized company can handle the growth of the last decade and where we can take on a lot more growth in the next few years. Our regional people and the men in charge of our field divisions have been selected, and tested, and after the last few years' experience they know precisely what they're doing. We've fitted around them our new Marketing Div. And now we think the company's organized and oriented pretty much the way it must be for fresh growth.

"This would have been just about the time Al Steele could have begun to take it easy. . . ."

• **Road Show**—Fortuitously, Steele's last project at Pepsi was to lead his team of executives on a six-week circuit of the U.S., introducing them to the 500 bottlers and at the same time whipping up fresh enthusiasm among those bottlers. Pepsi called the road show its "Ad-orama," and the chief attraction probably was Steele's wife, Joan Crawford (elected a director of Pepsi


Carrier air conditions
Idlewild with hot water?
But it isn't possible!

this month). The show was good enough to produce promises that the bottlers would build eight new plants this year in addition to the 20 they had scheduled at the start of the year.

To push expansion, Barnet has a fresh $20-million loan provided late in March by a group of insurance companies. Much of this, he plans, will go into enlarging Pepsi's foreign business. And Barnet himself will take on Steele's role of international business promoter.

• **Gnat Becomes Plague**—Pepsi is no longer a mere bothersome gnat for Coca-Cola. Though Coke still outsells Pepsi better than 2 to 1, Pepsi's rate of growth in sales and profits is a lot higher than Coke's. For instance, between 1950 and 1958 Coke's net income dropped more than 5% (from $31.8-million down to $30-million) while Pepsi's went from $1.2-million to $11.5-million. And Coke's net sales gained some 50% (from $215-million to some $305-million) while Pepsi's more than tripled (from $40.1-million to $136.8-million).

The bothersome gnat of a few years ago has turned into a plague. Coke's executives are sensitive about Pepsi's fast rise, and they shy away from policy comparisons. But in the last few years there has been a series of management changes in Coca-Cola. Perhaps through these Coke hopes to strengthen its promotion and marketing, whip its bottlers into shape, and boost sales.

• **Industry Stirs**—Perhaps because they are inspired by Pepsi's record in the last decade, other soft drink producers are trying to push into the national markets. Dr. Pepper Co., which from headquarters in Dallas turns out a concoction that has long been restricted to Southern markets, is starting to sell in the North and the East. Royal Crown Cola Co. is also spreading out from Georgia and South Carolina.

Altogether, the soft drink industry has been growing apace in the last 10 years. A trade magazine, National Bottlers Gazette, estimates that the industry sold 158 bottles per head of population in 1950 and 189.2 in 1958. But in the last three years the growth rate, though it has been faster than the growth of population, has not been so fast as the 10-year average. In fact, there was no gain from 1957 to 1958.

Pepsi has been beating this industry trend. But it still has an enormous distance to go if it ever hopes to carry out its professed aim to "beat Coke." That was the battle cry nine years ago when Steele started putting Pepsi back on its feet—and it probably helped morale then. But in his last couple of years Steele rarely used the cry. Barnet follows much the same line. He says: "We're fighting against indifference to soft drinks generally. Our sales usually turn out to be best in areas where all kinds of soft drinks sell well." END

In Marketing

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Detroit Discovers That the Car Isn't the Only Thing in Life

Detroit is undergoing a renaissance of its own. Promotors of culture are trying to develop in Motor City inhabitants as much of a thirst for culture as they have for cars and industry. An experiment labeled Detroit Adventure of 1959 got attention recently when downtown businesses promoted the venture. For example:

• Instead of fashions, department store windows displayed art, music, and literature.

• A near-downtown automobile dealer, Kessler Buick, held a week-long art show featuring paintings entered by members of the area women's art groups.

• The Metropolitan Opera made its first appearance in the city since 1910, with Mrs. Henry Ford II the guiding light. It was a sellout.

The program may have helped spark the First Nighters Guild—a group of Detroiters interested in putting their loose cash to use in the theater. The guild has pledges totaling $250,000.

Founder and chairman of Detroit Adventure, William Birenbaum, assistant vice-president of Wayne State University, is overwhelmed at the enthusiasm for an experiment that is operating on a minimum budget. Financing came from the Fund for Adult Education (a subsidiary of the Ford Foundation); Detroit's McGregor Foundation; plus help from participating institutions, the Central Business District Assn., Detroit Dept. of Parks & Recreation, and Music Trust Fund of the American Federation of Musicians.

The program started in February, was scheduled to run through June. But it may stretch out through the rest of the year.

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Consumers' Will to Save Withstands Talk of Inflation, Katona Finds

George Katona, program director of the University of Michigan's Survey Research Center, this week took issue with the notion that the consumer's will to save had been sapped by widely publicized warnings about the dangers of inflation. Katona's group, best known for its periodic consumer buying studies, has been conducting surveys to determine the effect of inflationary psychology on consumer savings.

Katona told the annual stockholders meeting of the Federal Home Loan Bank of Indianapolis that "the creeping inflation we have had in the past few years has not detracted from the will to save." **He added: "The attitudes it engenders—satisfaction with income increases and reluctance to pay higher prices—are very different from the attitudes that prevail in times of runway inflation."**

Katona notes that while most consumers expect prices to rise, they also feel that investments such as savings accounts, government bonds, and savings and loan accounts offer the best means of saving. He explains the apparent paradox by citing two prevalent consumer attitudes on saving:

• People aren't willing to gamble on the continuation of inflation to the extent of disregarding saving.

• They feel that even a depreciated dollar saved is better than a higher-power dollar spent on inconsequentials.

The proverbial rainy day is the No. 1 motive for saving, Katona finds. Piling up money for a specific purpose rates second; education of children and downpayments on a house are often cited goals.

Somewhat surprisingly, Katona discovered the desire to save bears little relation to income levels. He comments: "Dissatisfaction with available liquid reserves is as widespread among high as among low income families."

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Post's Contest for Admen Offers Arizona Ghost Town as Prize

The Saturday Evening Post has announced a contest capitalizing on the fad for Westerns. Limited to admen, the contest offers a whole Arizona ghost town as first prize for completing a jingle about the effectiveness of advertising in the Post. The successful adman will win Ulcer Gulch, Ariz., a 10-acre town boasting a saloon, hotel, general store, post office, a home, and three outhouses. Second prize is an authentic Old West stagecoach that retired from the Mexico City-Tiajuana run some years ago.

The Post's contest puts a new twist on the trend toward featuring real estate as a prize in giveaway promotions. Piel Bros. seems to have started the trend three years ago when its Treasure Island contest drew over 1-million entries from consumers competing for a mystery island in the Bahamas.

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Show Tickets, Books, Records Added To List of Trading Stamp Loot

Food Fair's Merchant Green, the big chain's wholly owned trading stamp subsidiary (BW—Feb.8'58,p44), has just extended to the Miami area its plan of offering "amusements" as premiums. The plan, offering show tickets, books, or records, began in April.

The idea came from Entertainment Premiums Corp., of New York. **The company procures the tickets from the theaters, publishes a monthly supplement to the regular Merchants Green annual premium catalog to tell consumers what shows are available.** The amusements also include entertainment at local attractions—Miami's Coconut Grove, for example. EPC believes this is the broadest such program of entertainment premiums offered for trading stamps.

Merchants Green bought the idea "to make its stamps more attractive than competitors' stamps." A survey by EPC indicated that consumers liked the idea.

In Business Abroad

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Leather Industry Will Push Its Products At American National Exhibit in Moscow

There will be more than goodwill in the Leather Industries of America's display of shoes and leather products at the American National Exhibition in Moscow.

LIA sees a chance for leather sales to the Russians. Here's why:

Soviet production of shoes and leather goods has increased an estimated 10% annually in the past three years. But the buildup in cattle herds has not kept pace with Soviet leather needs.

Soviet imports of sole leather hit 1.5-million tons last year—up 50% from 1955. Shoe imports also have increased substantially. This year—according to present orders—Russia will get $6-million worth of leather from West Germany and France. And recently, Russia more than doubled its hide purchases in Calcutta.

Thus, LIA hopes that the upcoming exhibition in Moscow will open the door for Soviet purchases of both shoes and leather products from the U. S.

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World's Largest Dam Will Provide Power For Rhodesia's Big Copper Industry

Against a background of simmering racial and political tension that erupted briefly last February, the Federation of Rhodesia & Nyasaland is pushing construction of the huge Kariba Dam (picture). Straddling the Zambesi River on the border of Northern and Southern Rhodesia, it will be the world's largest dam on completion.

Financing the $322-million hydroelectric project was no great problem. Two Rhodesian copper companies loaned $84-million. Most of the remaining funds came from the World Bank and Commonwealth Development Finance Co., Ltd.

But actual construction of Kariba has had a stormy history. Impresit, Ltd., a consortium of Italian companies, stirred resentment in Britain by winning the main contract against bids from British companies. Then, two heavy rains swept away several bridges, took the lives of 17 workers, and delayed construction.

Already, Kariba has created a gigantic lake 200 miles long and 50 miles wide. White Rhodesians have formed the Kariba Yacht Club—and expect a tourist boom. **But the dam's real purpose is to provide new power for the copper industry and speed economic growth.**

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U. S. Wants World Bank to Create Branch for Handling "Soft" Loans

The U. S. Treasury is throwing its weight behind the proposal to attach a $1-billion International Development Assn. to the World Bank. IDA, first suggested by Sen. Mike Monroney (D-Okla.), would make much the same kind of "soft" loans to underdeveloped countries as does the State Dept.'s Development Loan Fund.

Treasury Secy. Anderson hopes to get IDA chartered this fall at the annual meeting of the World Bank and International Monetary Fund. Anderson has been quietly working to get support of key members—Britain, France, West Germany, Japan, and Canada. **He is ready to have the U. S. put up one-third of IDA's initial capital, but wants the others to make part of their contributions in gold or dollars.** Since the West European governments now are adding heavily to their gold and dollar reserves, they are in a good position to do this.

Anderson sees some real advantages in having IDA take over a big part of the development financing that now is being handled by the DLF. It would relieve the pressures that foreign governments put on the U. S. for loans, and also reduce complaints about the U. S. using economic aid for political purposes. At the same time, it would cut the cost of direct economic aid from the U. S., which would be good domestic politics.

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Moscow and Cairo Still Haggling Over Plans for Nile's Aswan Dam

It looks as if Aswan Dam is the center of another controversy. The project, on the Nile River in the United Arab Republic, figured in the 1956 Suez crisis. **Afterward, the U.A.R. accepted a proffer of technical and financial help from the Soviets.**

However, last week at a Cairo reception for Russian electric power construction experts, the U.A.R.'s Public Works Minister, Moussa Arafa, said: "Aswan project details are still up in the air."

Both parties agreed it would take at least five years to build Aswan's first stage—strictly an irrigation project.

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Time for Real Reform of Our Labor Law

One month ago the Senate passed the Kennedy-Ervin labor reform bill with a single dissenting vote. As amended, it is a tougher bill than its original sponsors—and the unions—expected it to be. But it is still a weak and timid approach to labor-management problems.

And it could be weakened much more in the House. It is now before the House Committee on Education & Labor.

The Kennedy-Ervin bill grew out of the work of the Senate's McClellan investigating committee. That group, in two years of probing, turned up a mass of evidence on corruption and abuse of power by union leaders.

The original bill, as it was introduced, aimed at only limited reforms. It required reports on union funds and provided a few other safeguards against corruption. It tightened somewhat the provisions of the Taft-Hartley Act on organizational picketing and secondary boycotts. As a quid pro quo for the unions, it restored the right of strikers out on economic issues to vote in representational elections.

Under the urging of Sen. John L. McClellan, the Senate added a "bill of rights" for union members. It backed these guarantees of individual rights for members by giving them access to the federal courts.

The "bill of rights" alienated the unions. The leaders of the AFL-CIO, for example, served notice last week that they will resist passage of the Kennedy-Ervin bill in the House. In making the Kennedy-Ervin bill their chief target, the union leaders declared that it "under the guise of dealing with improper activities, seeks . . . to undermine effective collective bargaining."

Employers expressed their disappointment, too, but for opposite reasons. Indeed, both the National Assn. of Manufacturers and the U. S. Chamber of Commerce have formally taken stands against it.

Even the amended bill is far short of what is necessary effectively to curb corruption, abuses of power, and dictatorial practices on the part of labor leaders. Unions, of course, argued that these evils are found in only a small part of the labor movement, but legislation must apply to all equally.

The bill has other weaknesses. The new restrictions on blackmail picketing and on secondary boycotts, for example, will affect only a few employers —by no means all of those who have to contend with organizational picketing and boycotts. For these reasons, some management groups contend that the Kennedy-Ervin bill only hoodwinks those who want effective relief from the abuse of excessive labor power.

There are signs that the House intends to face up to these problems. There is a movement for stronger and broader curbs on blackmail picketing and on secondary boycotts, curbs that would eliminate weakness in the federal law for all employers, not just some of them. The House may go on to face up to other problems that have arisen in the 12 years Taft-Hartley has been on the books.

If the House does move to strengthen the bill, however, the forces friendly to labor will undoubtedly urge the dumping of all "controversial changes" in Taft-Hartley. They will plump for a bill that can be easily reconciled with the Senate bill. They will suggest a compromise on a narrow reform bill—leaving the tough problems to be taken up after next year's Presidential elections.

We believe that the time for effective reform is now. The public interest demands a labor bill that will effectively revise Taft-Hartley and that will include full and enforceable guarantees of democratic rights for union members.

This is no time to compromise. Congress should get on with the job of giving the nation a broad and realistic overhaul of its basic labor law.

The Business of Politics

Another Presidential election year is rapidly approaching and with it comes a growing ferment among businessmen to "get into politics" (page 45).

That's all to the good. Businessmen have been justly accused—by others and, now, by themselves —of standing above precinct politics. They have shown little or no interest, except perhaps in the closing stages of an election campaign, in the workaday world of professional party affairs. As a result, their efforts have often been inept and amateurish. Realizing this, political pros usually have sought only the businessman's money, certainly not his untutored advice and counsel. That is in contrast to the skilled political action of organized labor.

The movement afoot today is a healthy one if, as Sears, Roebuck Vice-Pres. James C. Worthy warns, businessmen don't leap into the political waters before they learn to swim. Politics is a year-around business with pitfalls for the unwary.

There is a danger in this movement, too. If the management of giant corporations, as such, becomes politically active there is a good chance that it will be less than effective. In fact, for corporations to become politically oriented may tend to accentuate the division of business and labor. By stressing the corporation view, management may defeat the very ends—such as a wiser electorate and a more friendly atmosphere—that it seeks.

Sen. Thruston Morton of Kentucky, Republican national chairman, put it bluntly last week. He urged businessmen to get into politics "as citizens rather than as spokesmen for or representatives of just one segment of our total economy."

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